



## SOCIAL SECURITY

### MEMORANDUM

Date: June 18, 2004

Refer To:

To: The Commissioner

From: Acting Inspector General

Subject: Summary of State Disability Determination Services Administrative Cost Audits Completed in Fiscal Years 2000 through 2003 (A-15-03-13061)

The attached final report presents the results of our audit. Our objective was to summarize common findings and recommendations reported by 15 Disability Determination Service administrative cost audits.

Since we are not making new recommendations in this audit report, a response regarding corrective action is not required. Such responses will be obtained via the audit resolution process for the individual audits on which the summary is based. If you wish to discuss the final report, please call me or have a member of your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

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

Patrick P. O'Carroll, Jr.

Attachment

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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SUMMARY OF STATE DISABILITY  
DETERMINATION SERVICES ADMINISTRATIVE  
COST AUDITS COMPLETED IN  
FISCAL YEARS 2000 THROUGH 2003**

June 2004

A-15-03-13061

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**AUDIT REPORT**

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## **Mission**

**We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.**

## **Authority**

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

- 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

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## OBJECTIVE

Our objective was to summarize common findings and recommendations reported by 15 Disability Determination Service (DDS) administrative cost audits.

## BACKGROUND

The Disability Insurance (DI) program provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program is a nationally uniform program that provides income to financially needy individuals who are aged, blind and/or disabled. The Social Security Administration (SSA) implements the general policies governing development of disability claims under the DI and SSI programs. In accordance with Federal laws and regulations, the DDS in each State performs disability determinations of claimants' medical eligibility for SSA programs and ensures that adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures. In Fiscal Year (FY) 2003, over \$1.6 billion was allocated by SSA to fund State DDS operations. As of September 2003, there were 52 DDS offices which are located in the 50 States, the District of Columbia and Puerto Rico.

In April 2001, we developed a cyclical audit plan and schedule to provide for a timely and effective review of administrative expenses associated with the DDS audits. The schedule was based on the following factors: (1) past administrative cost audits, (2) amount of annual costs, and (3) requests made by SSA. We completed 15 DDS administrative cost audits in FYs 2000 through 2003. We conducted these audits to determine whether costs claimed were allowable and properly allocated, Federal funds drawn agreed with total expenditures, and internal controls over the accounting and reporting of administrative costs were adequate.

## RESULTS OF REVIEW

We reviewed the findings and recommendations in 15 DDS administrative cost audit reports completed in FYs 2000 through 2003. Two of the 15 audits did not contain any findings. In the remaining 13 reports, we found issues, which directly impact the efficiency and effectiveness of the DDS fiscal and administrative operations. These findings concern unallowable administrative costs and noncompliance with Federal regulations and SSA's Program Operations Manual System (POMS). We have summarized the previous findings by dollar impact on SSA funding:

- indirect costs;
- cash management;
- consultative examinations;
- all other non-personnel costs; and
- crosscutting issues.

Our recommendations included monitoring and implementing internal controls and complying with Federal regulations and SSA's POMS. Prior to issuing this summary report, SSA reported that recommendations for 8 of the 15 DDS administrative cost audits were implemented.

## **CONCLUSION**

Our audit findings and related recommendations demonstrate the need for improvement in SSA's oversight of the DDS fiscal operations. The noncompliance with Federal regulations and POMS as well as internal control weaknesses noted throughout the audit reports can be attributed in part to the insufficient oversight by SSA. It is SSA's responsibility to ensure that policies and procedures are followed, internal controls are effective and adequate, and Federal funds are appropriately spent and documented. Further, SSA needs to be proactive in ensuring that SSA regional office and State staffs are adequately trained and have the expertise in financial management and accounting processes.

To assist SSA management with improving the Agency's oversight capability, we plan to include an audit of SSA's oversight in our FY 2005 Office of Audit Work Plan. Our objective will be to make recommendations that will improve SSA's oversight of DDS fiscal and administrative operations.

## **AGENCY COMMENTS**

SSA has generally agreed with our previous recommendations. In SSA's comments to this summary report, SSA stated it has implemented recommendations from 8 of the 15 audits where appropriate, and continues to work towards implementation of all recommendations. SSA supports the Office of the Inspector General's plan to include an audit of SSA's oversight of DDS administrative costs in the FY 2005 Office of Audit Work Plan.

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# Acronyms

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AMA	American Medical Association
CAP	Cost Allocation Plan
CE	Consultative Examinations
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
DDS	Disability Determination Services
DI	Disability Insurance
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
RC	Regional Commissioner
SSA	Social Security Administration
SSI	Supplemental Security Income
Treasury	United States Department of Treasury
U.S.C.	United States Code

# Introduction

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## OBJECTIVE

Our objective was to summarize common findings and recommendations reported by 15 Disability Determination Service (DDS) administrative cost audits.

## BACKGROUND

The Disability Insurance (DI) program provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program is a nationally uniform program that provides income to financially needy individuals who are aged, blind and/or disabled. The Social Security Administration (SSA) implements the general policies governing development of disability claims under the DI and SSI programs. In accordance with Federal laws and regulations<sup>1</sup> the DDS in each State performs disability determinations of claimants' medical eligibility for SSA programs and ensures that adequate evidence is available to support its determinations.<sup>2</sup> SSA reimburses the DDSs for 100 percent of allowable expenditures. In Fiscal Year (FY) 2003, over \$1.6 billion was allocated by SSA to fund DDS operations. As of September 2003, there were 52 DDS offices which are located in the 50 States, the District of Columbia and Puerto Rico.

In April 2001, we developed a cyclical audit plan and schedule to provide for a timely and effective review of administrative expenses associated with the DDS audits.<sup>3</sup> The schedule was based on the amount of annual costs for each DDS and past administrative audits as well as requests made by SSA.

We completed 15 DDS administrative cost audits in FYs 2000 through 2003 (See Appendix B). We conducted these audits to determine whether costs claimed were allowable and properly allocated, Federal funds drawn agreed with total expenditures, and internal controls over the accounting and reporting of administrative costs were adequate.

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<sup>1</sup> 42 United States Code (U.S.C.) §§ 421 and 1382c(a)(3)(H)(i); 20 Code of Federal Regulations (CFR) part 404, subpart Q, and part 416, subpart J.

<sup>2</sup> "State" is used throughout our report to mean any of the 50 States of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or any agency or instrumentality of a State exclusive of local governments.

<sup>3</sup> Memorandum dated April 23, 2001 to Larry G. Massanari, Acting Commissioner, *Further Coverage of DDS Administrative Cost Audits*.



# Results of Review

We reviewed the findings and recommendations in 15 DDS administrative cost audit reports completed in FYs 2000 through 2003. Two of the 15 audits did not contain any findings. In the remaining 13 reports, we found issues which directly impact on the efficiency and effectiveness of the DDS fiscal and administrative operations. These findings concern unallowable administrative costs and noncompliance with Federal regulations and SSA's Program Operations Manual System (POMS).

We have summarized the previous findings by dollar impact on SSA funding.

<b>Finding Category</b>	<b>Number of Reports</b>	<b>Dollars (in millions)</b>
Indirect Costs	6	\$12.3
Cash Management: Overdraws	7	5.2
Consultative Examinations	3	4.5
All Other Non-Personnel	3	2.5
Crosscutting:		
Unliquidated Obligations	7	9.0
Accounting Errors	9	4.6
Other Internal Controls	8	1.3
<b>Total</b>	<b>13*</b>	<b>\$39.4</b>

\* Individual reports often contain multiple findings

## INDIRECT COSTS

The Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* established the standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally recognized Indian tribal governments. The indirect costs must be reasonable and necessary for proper and efficient performance and administration of Federal programs. To recover indirect costs, the States must prepare cost allocation plans or indirect cost rate proposals in accordance with OMB Circular A-87. The costs must be the net of all applicable credits that result from transactions reducing or offsetting direct or indirect costs.<sup>4</sup> There are two types of costs included within indirect costs—department- and state-wide. Departmental indirect costs are incurred within a State department and benefit only components of the department. Statewide indirect costs are incurred at a level above

<sup>4</sup> OMB Circular A-87, *Cost Principles for State and Local, and Indian Tribal Governments* Attachment E, A-F.

the department or agency and benefit most departments (and components) within the State. The indirect costs include obligations for expenses incurred under a written indirect cost negotiation agreement or an approved state-wide cost allocation plan (CAP). Funds for indirect costs may be requested in the budget and conditionally approved by SSA, before a cost allocation agreement has been signed and issued. These agreements must be obtained before obligations are incurred for indirect costs.<sup>5</sup>

We reported unallowable indirect costs and errors made in calculating indirect costs in 6 of 15 audits totaling \$12.3 million. We previously recommended SSA establish an indirect cost oversight process that ensures adequate technical expertise to evaluate allocation methodologies and to represent SSA's interest during the indirect cost negotiation process.<sup>6</sup> SSA did not take action to detect or prevent the unallowable indirect costs claimed and costs that did not benefit SSA or errors made in calculating indirect costs.

Specifically, the findings disclosed that some indirect cost methodologies were flawed and CAPs were not followed. We found that:

- CAPs were not current or approved;
- States did not allocate costs appropriately and consistently to all components;
- errors were made in calculating indirect cost amounts;
- excessive departmental and statewide indirect costs were charged to SSA;
- indirect costs were overstated on SSA's Form 4513;
- indirect cost obligations were not adequately documented;
- unallowable indirect costs were claimed that did not benefit SSA; and
- SSA regional staff did not possess the expertise to review or negotiate indirect cost rates/plans.

It is SSA's responsibility to ensure: 1) OMB requirements and SSA policies and procedures are followed; 2) regional offices are proactive in monitoring and testing claimed indirect costs; and 3) that States' accounting staff are adequately trained to perform the necessary tasks involved in the planning and implementation of indirect cost rates and CAPs.

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<sup>5</sup> POMS DI 39503.275 - *Indirect Costs*.

<sup>6</sup> Similar findings and recommendations are in the Office of the Inspector General report *SSA's Oversight of Indirect Costs Claimed by DDSs* (A-07-03-23086), dated March 2004.

## CASH MANAGEMENT

The Congress enacted the Cash Management Improvement Act of 1990<sup>7</sup> (CMIA) to ensure the efficiency, effectiveness, and equity of transferring funds between the States and the Federal Government. The CMIA requires the States to minimize the time between the receipt and disbursement of Federal funds. The CMIA allows the States to charge interest when State funds are paid out for Federal programs before Federal funds are made available.<sup>8</sup> Similarly, the State must pay the Federal Government interest if it draws funds too early.<sup>9</sup>

We reported in 7 of 15 DDS audits that cash drawn was in excess of the costs incurred by \$5.2 million. Also, while not affecting SSA funding, we found in 2 of the 15 audits States had failed to draw funds totaling \$11.5 million. In addition, the internal controls were not adequate to prevent the over draw or under draw of SSA funds. We also found that SSA did not ensure policies and procedures were followed consistent with the CMIA and did not monitor the draw down of funds. Therefore, we determined cash draws were not effectively and efficiently made in accordance with applicable laws, regulations and policies.

Specifically, the findings disclosed that: 1) there were no State procedures for cash draws by FY reporting period or collecting funds from un-negotiated warrants;<sup>10</sup> 2) SSA funds were used to replenish non-SSA activities; 3) regional office staff did not monitor the draw down of funds to ensure compliance with Federal laws; and 4) State accounting staff were unaware of excessive cash draw downs.

We previously recommended SSA: 1) establish procedures to recover the proceeds from un-negotiated warrants; 2) require compliance with the CMIA; 3) periodically monitor the draw down of funds; and 4) establish accounting procedures which would provide appropriate reconciliation of draw downs with the Form SSA-4513 report.

It is important that SSA monitor the States' draw of SSA funds to ensure that States understand and comply with requirements for drawing down SSA funds and that the States pay the required interest if they do not comply. Without cash management controls, States cannot identify and assess allowable cash requirements and there could be early cash draws, which may cause the Federal Government to lose interest on those funds.

It is SSA's responsibility to ensure that controls are implemented to prevent the over draw of SSA funds. We believe if SSA had performed a comparison of the States' disbursements reported on the Form SSA-4513 and the Department of the Treasury's

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<sup>7</sup> Public Law No. 101-453.

<sup>8</sup> 31 CFR § 205.14.

<sup>9</sup> 31 CFR § 205.15.

<sup>10</sup> Warrants are "checks" issued by the State which are not cashed and become non-negotiable after a specified period of time.

(Treasury) Automated Standard Application for Payments system reports, most of the overdrafts would have been identified and corrective action taken at the appropriate time.

## CONSULTATIVE EXAMINATIONS

States are required to "...achieve appropriate rates of payments for purchased medical services"<sup>11</sup> and develop a fee schedule to be used by the DDSs for payment of consultative examinations (CE). DDSs are to consider the fee schedule as a maximum payment schedule. Authorized payments represent the lower of the provider's usual and customary charge, or the maximum allowable charge under the fee schedule and should not exceed the highest rate paid by Federal or other agencies in the State for the same or similar types of service.<sup>12</sup> When possible, the DDSs should also use the American Medical Association (AMA) Common Procedural Terminology coding system to identify each procedure in its fee schedule. The documentation to support rates paid to providers should be maintained.<sup>13</sup>

In accordance with POMS,<sup>14</sup> DDSs manage the CE process. The DDSs are to: 1) ensure accuracy, integrity, and economy of the CE process; 2) work consistently within Federal and State laws to achieve appropriate payment rates for purchased medical services; 3) monitor referrals and the purchase of CEs in accordance with SSA policies; 4) determine the rate of payment for medical or other services if the State (the DDS parent agency) does not set a fee schedule; 5) authorize CEs; and 6) perform comprehensive oversight of its CE program with special emphasis on key providers.<sup>15</sup>

In 3 of the 15 audits, we reported unallowable medical costs totaling \$4.5 million, which were charged to SSA's programs. These costs included:

- increased fees for specialty examinations, such as x-rays, laboratory tests, and other services that were implemented without sufficient notification and justification to SSA;
- duplicate payments for CEs and medical evidence of record;
- excessive review of record fees;
- paying hospitals, clinics, and individual physicians for CEs at rates that exceeded the highest rate paid by Federal or other State agencies; and
- the lack of adequate controls to ensure that CE payments were properly authorized.

We previously recommended SSA: 1) improve its oversight of CE fees; 2) limit the highest rate allowable by Federal or other agencies; 3) clarify on a national level, by regulation or otherwise, that a State DDS parent agency cannot set DDS CE fees in

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<sup>11</sup> 20 CFR § 404.1519s(c).

<sup>12</sup> POMS DI 39545.210, *Fee Schedules*; 20 CFR § 404.1624, *Medical and Other Purchased Services*.

<sup>13</sup> POMS DI 39545.410, *Monitoring and Maintenance of Fee Schedules*.

<sup>14</sup> POMS DI 39545.230, *Managing the CE Process*.

<sup>15</sup> POMS DI 39545 various.

excess of the highest rate allowable by Federal or other agencies in the State; 4) adopt the AMA coding system to provide a crosswalk between the DDS and Medicare fees for the same or similar type of service; and 5) provide supporting documentation and obtain approval when fees are increased for certain specialty examinations.

SSA has not been proactive in providing adequate oversight to: 1) monitor CE fees and test documents related to medical costs; 2) ensure that the DDSs are adhering to the highest rate allowable by Federal or other State agencies for similar services; and 3) ensure payments are properly authorized and disbursed. It is SSA's responsibility to provide oversight, leadership and liaison with the States and the DDSs' responsibility to ensure that CE fees are paid in accordance with Federal regulations and SSA policies and procedures.

## **ALL OTHER NON-PERSONNEL COSTS**

DDSs may incur, with proper budget approval, expenses that are categorized as *all other non-personnel* costs. Typically, costs incurred for SSA's disability determination process are deemed essential and may be charged to SSA.<sup>16</sup> These costs may include: 1) occupancy costs; 2) some types of contracted out costs; 3) electronic data processing maintenance costs; 4) new computer equipment or upgrades; 5) equipment costs; 6) communications; 7) applicants' travel; 8) DDS employee travel; 9) supplies; and 10) other miscellaneous expenses.<sup>17</sup>

We reported in 3 of 15 audits that all other non-personnel unallowable costs totaled \$2.5 million. Our findings disclosed that deficiencies existed in the DDS' compliance with the requirements of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*<sup>18</sup> and POMS<sup>19</sup> for incurring and paying costs deemed essential to the DDS operations. Specifically, the findings include:

- unallowable non-personnel costs claimed (communications and rental),
- lack of review and maintenance of appropriate documentation, and
- staff not appropriately trained in the proper methods of charging non-personnel costs to SSA.

We previously recommended that: 1) procedures should be developed to review the propriety of communication costs charged by other State agencies and private communication companies to ensure unallowable costs are not claimed; 2) periodic reviews should be conducted to identify incorrect charges to SSA programs; and 3) staff should be adequately trained in the technical aspects of classifying non-personnel costs.

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<sup>16</sup> POMS DI 39506.001, *DDS Financial Management*.

<sup>17</sup> POMS DI 39506.210, *D. Procedure - Line Item Reporting*, 4. All Other Non-Personnel Costs.

<sup>18</sup> OMB Circular A-87 Attachment A, *General Principles for Determining Allowable Costs*, C. Basic Guidelines.

<sup>19</sup> POMS DI 39503.270, *Non-Personnel Costs-DDS*.

In accordance with OMB Circular A-123, *Management Accountability and Control*, it is important that SSA follow up with the implementation of corrective actions to prevent unallowable and inappropriate costs. Without appropriate oversight, the DDSs will continue to claim inappropriate costs that could result in the delay of SSA's funds for other administrative programs.

It is SSA's responsibility to ensure that policies and procedures are followed, staffs are appropriately trained, and internal controls are effective and adequate to prevent unallowable expenses.

## **CROSSCUTTING**

We reported three findings that crossed among the other categories: 1) unliquidated obligations,<sup>20</sup> 2) accounting errors, and 3) other internal controls.

### **Unliquidated Obligations**

The obligational authority SSA provides to the State agency places a cumulative limit on the amount of obligational authority available for disbursement of funds. SSA's POMS<sup>21</sup> states that valid unliquidated obligations should be supported by documentation and records describing the obligation and supporting amounts recorded. In addition, State agencies should review unliquidated obligations at least once per month to cancel those no longer valid. States are required to use funds solely for program use and any unused money should be returned to Treasury.<sup>22</sup>

We reported in 7 of the 15 audits that the DDSs improperly claimed unliquidated obligations totaling \$9 million. As a result, the DDSs overstated their reported unliquidated obligations. We found that:

- obligations were not deobligated when orders were cancelled;
- DDSs improperly used historical data to estimate non-personnel costs;
- there were ineffective methods for estimating unliquidated obligations; and
- obligations were not reduced when all outstanding obligations were resolved.

Our findings disclosed that a total of \$9 million in unliquidated obligations had not been appropriately deobligated or supported by documentation. Because fund balances were carried as unliquidated obligations, funding authority was not released or made available for other SSA programs. As a result, other SSA programs' needs may not be met or could be delayed due to annual budget restrictions on how much SSA can use for administrative costs (including the funding of DDS operations).

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<sup>20</sup> Unliquidated obligations represent the orders placed for goods and services received, but for which payment has not yet been made.

<sup>21</sup> POMS DI 39506.203, *Updating and Reconciling Unliquidated Obligations*.

<sup>22</sup> Section 221(f) of the Social Security Act, as amended, (42 U.S.C. § 421(f)).

We previously recommended that the DDSs: 1) deobligate any unliquidated obligations that are not supported by valid documentation; 2) implement additional reporting controls to ensure that all obligations are adequately supported; and 3) review unliquidated obligations at least once per month to ensure those no longer valid are cancelled.

It is SSA's responsibility to ensure that appropriate measures are taken to accurately account for and report on unliquidated obligations. We believe an important element of SSA's oversight should be to ensure that claimed unliquidated obligations are valid and to determine if States are actively reviewing the unliquidated obligations. This oversight should provide verification that obligations are adequately documented and deobligated if they are not expected to result in payment.

## Accounting Errors

Federal regulations<sup>23</sup> require State agencies to be responsible for the efficient and effective administration of Federal awards through the application of sound management practices. Management controls are the organization, policies and procedures used to reasonably ensure that: 1) programs achieve their intended results; 2) resources are used consistent with the agency mission; 3) programs and resources are protected from fraud, waste and mismanagement; 4) laws and regulations are followed; and 5) reliable and timely information is obtained, maintained, reported and used for appropriate decision making.<sup>24</sup>

In addition, SSA is required<sup>25</sup> to ensure:

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...the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law.

In 9 of the 15 audits, we found that accounting errors occurred. As a result, a total of \$4.6 million in excess costs were recorded and reported in the wrong FY. The incorrect recording and reporting occurred because:

- the Form SSA-4513 was finalized before all obligations were liquidated;
- rental space costs were incorrectly allocated;
- the necessary manual adjustments were not always performed to correct inaccurate reporting;
- clerical errors were made and payroll system problems occurred;
- obligations were not always established in a timely and accurate manner;
- there were no procedures for a "cut-off" of costs in the proper year; and

<sup>23</sup> OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, Section (A) Purpose and Scope, (2) Policy guides (1) (a) (as amended August 29, 1997).

<sup>24</sup> OMB Circular A-123, *Management Accountability and Control*, 2. Policy.

<sup>25</sup> 31 U.S.C. §1502 (a).

- SSA gave permission to use funds for other than current FY recording and reporting.

Of particular concern to us is regional office approval of accounting for costs, (for example using funding for one FY to pay for another year's rent) in a manner explicitly prohibited by POMS and OMB Circular A-87.<sup>26</sup>

We previously recommended SSA follow established Federal regulations for expenses incurred for the period of fund availability to include establishing procedures for reporting expenditures in the correct FY.

The improper recording of funds between FYs prevents SSA from accurately monitoring and reporting on the status of the State's expenditures. It is SSA's responsibility to set the objectives, ensure that control mechanisms are in place, and monitor and evaluate those controls to ensure that Federal funds are appropriately recorded and reported for the DDS program operations.

## Other Internal Controls

Internal controls serve as a first-line of defense in safeguarding assets and preventing and detecting errors and fraud. Internal controls provide reasonable assurance that the objectives of the agency are being achieved in the: 1) effectiveness and efficiency of operations; 2) reliability of financial reporting (i.e. budget execution, financial statements); and 3) compliance with appropriate laws and regulations.<sup>27</sup>

Management and employees have a responsibility to establish and maintain an environment throughout the organization that sets a positive and supportive attitude toward internal control processes. As such, SSA management has a key role in providing leadership in this area, especially in setting and maintaining the organizations' ethical tone. Management is responsible for controls relating to information processing, proper execution of transactions and events, accurate and timely recording of transactions, and maintaining appropriate documentation to ensure reasonable assurance through internal controls.<sup>28</sup> Transactions should be properly recorded, accounted for, and executed in compliance with applicable laws, regulations and the provisions of contracts and grant agreements that could have a direct and material effect on a Federal program.<sup>29</sup>

In 8 of the 15 audits, we previously found issues concerning other internal control weaknesses. The findings indicated that deficiencies existed in the reported

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<sup>26</sup> OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, Attachment A, C. Basic Guidelines, 1-4; POMS DI 39506.001 - *DDS Financial Management*.

<sup>27</sup> General Accounting Office *Standards for Internal Controls in the Federal Government* AIMD-00-21.3.1 (November 1999).

<sup>28</sup> OMB Circular A-123, *Management Accountability and Control*.

<sup>29</sup> OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart A - General §105, Definitions.



administrative costs because management was not proactive in reviewing documentation to ensure costs claimed were supported and properly allocated. The eight findings totaled \$1.3 million. The findings included, but were not limited to: 1) no segregation of duties for recording and reporting time and attendance; 2) no documentation to support disbursements; 3) inventory records were not maintained; 4) invoices and canceled checks for vendor payments were missing; 5) unsupported personnel costs; 6) clerical and reporting errors; 7) misclassified personnel costs; and 8) staffs were not always aware of the emphasis that SSA places on internal control procedures.

SSA's managers are responsible for monitoring and improving the effectiveness of management controls associated with their programs. While these weaknesses do not affect the amount SSA reimbursed the DDSs, correction of these weaknesses could improve the Agency's ability to accurately report costs associated with the DDS fiscal and administrative management.

## **OTHER MATTERS**

Our summary of report findings has brought to our attention the need for improvement in SSA's oversight of the DDS administrative and fiscal operations. In addition, two other reports came to our attention that identified similar oversight issues.<sup>30</sup> Although the two reports are outside the scope of our summary report, we are presenting the findings as other matters with respect to this report. We believe the two examples presented below demonstrate the need for additional fiscal oversight of the DDSs. To assist the Agency in the fiscal accountability of DDSs, we plan to conduct an audit of SSA's fiscal oversight of the DDSs.

During the Georgia DDS audit we noted that costs claimed on the Forms SSA-4513 were about \$8.3 million more than the supporting accounting records that had been provided to us. We sought alternative sources of data and were able to reduce the difference to about \$2.3 million. We recommended the Atlanta Regional Office work with the DDS to determine to what extent the difference between the accounting records could be supported by detailed records traceable to invoices, checks, etc. and Georgia reimburse SSA for unsupported costs.

In its comments to the Office of the Inspector General's draft report, the Atlanta Regional Office stated:

We agree that if claimed costs cannot be adequately supported, then DHR [Department of Human Resources] should reimburse SSA. However, the Regional Office is not staffed or trained to either obtain or determine what constitutes valid or acceptable supporting documentation of DDS fiscal transactions and obligations.

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<sup>30</sup> *Administrative Costs Claimed by the Georgia Disability Adjudication Service (A-15-01-11021)*, dated February 6, 2004, and *The Social Security Administration's Oversight of Indirect Costs Claimed by Disability Determination Services, (A-07-03-23086)* dated March 16 2004.

The expertise required to perform this type of fiscal accounting function regarding a DDS or its parent agency does not currently reside within the Regional Office.

POMS<sup>31</sup> identifies the Regional Commissioner (RC) as the principal SSA officer at the regional level. The RC manages and directs SSA regional operations in accordance with national standards and policies. SSA needs to ensure that the regional offices are staffed with individuals who have the technical expertise to provide fiscal oversight operations of the DDSs.

The second report that came to our attention was an audit of oversight of indirect costs claimed by the DDSs. The report disclosed opportunities for SSA to improve its oversight and identified areas for improvement that were needed because SSA's current indirect cost oversight process:

- ✓ Relies on cognizant Federal agencies to represent SSA's interest in the rate/plan review, negotiation and approval processes. However, the cognizant agencies' processes are not designed to represent SSA's interest to the extent that it would identify all incorrect or inequitable indirect costs allocated to DDSs.
- ✓ Delegates indirect cost oversight responsibilities to its regional offices. However, SSA did not ensure that the regional offices had the detailed knowledge needed to oversee this complicated process.
- ✓ Relies extensively on State and other Federal audits to identify and correct problems with the approved rate/plan and to ensure the rate/plan is properly executed by the DDSs. However, State and Federal audits do not provide annual audit coverage of indirect costs charged to SSA by DDSs.

As reported in statements made by 8 of 10 regional offices, SSA regional staffs do not possess the technical knowledge of indirect costs. The regional offices informed us that they did not have the expertise needed to adequately review the rates/plans and/or monitor the resolution of indirect cost findings reported in State and Federal audits. When changes are made to the rates/plans, the changes are not explained and are hard to understand. Unless the regional office has a detailed knowledge of a DDS indirect cost allocation process, it does not know what services are being provided for the DDS by the State.

Most regional offices believed it is the responsibility of State and Federal auditors to ensure the indirect cost/rate plan represents SSA's interest and ensure the DDS correctly executes the approve rate/plan.

In our report, we agreed that both the Single Audits and the OIG's DDS administrative cost audits play an important role in the indirect cost process. However, Federal and State audit agencies do not provide annual audit coverage of DDS' indirect costs.

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<sup>31</sup> POMS DI 39501.020 B. 2. *Roles and Responsibilities for Administering SSA's Disability Programs.*

Accordingly, we recommended that SSA establish an indirect cost process that would ensure it has the technical expertise to evaluate allocation methodologies as well as protect and benefit SSA's interest. In response, SSA stated that establishing an indirect cost oversight process that ensures adequate technical expertise to evaluate allocation methodologies and to represent SSA's interest during the indirect cost negotiation process appears difficult and wasteful of its limited resources given the stewardship currently performed by cognizant Federal agencies on indirect costs. Further, the OIG should perform additional oversight of indirect costs.

Our recommendation was directed to the Agency's fundamental responsibility to ensure the effectiveness of internal controls over the indirect costs charged to its disability programs by DDSs. OMB Circular A-123 *Management Accountability and Control*, states stewardship of Federal resources is the fundamental responsibility of each Federal agency. Agency employees must ensure that Government resources are used efficiently and effectively to achieve intended program results. Resources must be used consistent with the Agency's mission, in compliance with laws and regulations, and with minimal potential for waste, fraud, and mismanagement. Further, OMB Bulletin 01-02 *Audit Requirements for Federal Financial Statements* requires that SSA issue a management representation letter annually. In that letter, SSA must state that it is responsible for establishing and maintaining internal controls and has assessed the effectiveness of its internal controls.

# Conclusion

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Our assessment of the audit findings and related recommendations demonstrate the need for improvement in SSA's oversight of the DDS fiscal operations. The noncompliance with Federal regulations and POMS as well as internal control weaknesses noted throughout the audit reports can be attributed, in part, to the insufficient oversight by SSA. It is SSA's responsibility to ensure that policies and procedures are followed, internal controls are effective and adequate, and Federal funds are appropriately spent and documented. Further, SSA needs to be proactive in ensuring that SSA regional office and State staffs are adequately trained and have expertise in financial management and accounting processes.

To assist SSA management with improving the Agency's oversight capability, we plan to include an audit of SSA's oversight in our FY 2005 Office of Audit Work Plan. Our objective will be to make recommendations that will improve SSA's oversight of DDS fiscal and administrative operations.

## **AGENCY COMMENTS**

SSA generally agreed with our previous recommendations. In its comments to this summary report, SSA stated it has implemented recommendations from 8 of the 15 audits, where appropriate, and continues to work towards implementation of all recommendations. SSA supports the Office of the Inspector General's plan to include an audit of SSA's oversight of DDS administrative costs in the FY 2005 Office of Audit Work Plan.

# *Appendices*

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### Scope and Methodology

We reviewed the findings and recommendations in 15 disability determination service (DDS) administrative cost audits completed in Fiscal Years (FY) 2000 through 2003. Specifically, we analyzed the findings,<sup>1</sup> related recommendations and identified relevant issues concerning the Social Security Administration's (SSA) oversight of the DDS fiscal and administrative management.

We also reviewed:

- Applicable Office of Management and Budget guidance;
- SSA's Program Operations Manual System instructions DI 39500 *DDS Fiscal and Administrative Management*;
- Office of the Inspector General (OIG) DDS administrative cost audit reports for the individual States of Alabama, Arizona, California, Connecticut (limited distribution), Florida, Hawaii, Illinois, Kansas, Kentucky, New York, North Dakota, Oregon, and Washington as well as the District of Columbia and Puerto Rico; and
- OIG report, SSA's Oversight of Indirect Costs Claimed by the DDS (A-07-03-23086) and OIG report Administrative Costs Claimed by the Georgia Disability Adjudication Section (A-15-01-11021) both of which were outside the scope of our audit.

We performed our review in Baltimore, Maryland, between May and October 2003. The audit was conducted in accordance with generally accepted government auditing standards.

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<sup>1</sup> There were no findings reported for the Florida and North Dakota DDS Administrative Cost Audits. The Connecticut audit report was issued under limited distribution; therefore, we only reviewed two of five findings and recommendations concerning administrative costs.

## Appendix B

### OIG DDS Administrative Cost Audits Completed in Fiscal Years 2000 through 2003

Administrative Costs Claimed by the Alabama Disability Determination Services (A-08-01-11050), dated September 2002

Audit of the Administrative Costs Claimed by the Arizona Department of Economic Security for its Disability Determination Services Administration (A-15-99-51009), dated August 2001

Audit of Administrative Costs Claimed by the California Disability Determination Services (A-09-02-22022), dated May 2003

Audit of the Administrative Costs Claimed by the Connecticut Disability Determination Services (Limited Distribution) (A-15-00-30016), dated September 2001

Audit of the Administrative Costs Claimed by the District of Columbia Disability Determination Division (A-13-98-91003), dated February 2001

Audit of the Administrative Costs Claimed by the Florida Division of Disability Determinations (A-08-03-13006), dated September 2003

Audit of the Administrative Costs Claimed by the Hawaii Disability Determination Services (A-09-03-13012), dated September 2003

Audit of the Administrative Costs Claimed by the Illinois Bureau of Disability Determination Services (A-05-02-22019), dated August 2003

Audit of the Administrative Costs Claimed by the Kansas Disability Determination Services (A-07-02-22003), dated October 2002

Audit of the Administrative Costs Claimed by the Kentucky Department of Disability Determination Services (A-08-03-13007), dated September 2003

Audit of the Administrative Costs Claimed by the New York Disability Determination Division (A-15-00-20053), dated May 2003

Audit of the Administrative Costs Claimed by the North Dakota Disability Determination Services (A-15-02-12036), dated September 2002

Audit of the Administrative Costs Claimed by the Oregon Disability Determination Services (A-15-99-52021), dated February 2001

Audit of the Administrative Costs Claimed by the Commonwealth of Puerto Rico Disability Determination Program (A-06-02-22072), dated February 2003

Audit of the Administrative Costs Claimed by the State of Washington Division of Disability Determination Services (A-15-02-12025), dated August 2003

## Agency Comments





**SOCIAL SECURITY**

MEMORANDUM

33126-24-1074

Date: May 20, 2004

Refer To: S1J-3

To: Patrick P. O'Carroll  
Acting Inspector General

From: Larry W. Dye /s/  
Chief of Staff

Subject: Office of the Inspector General (OIG) Draft Report, "Summary of State Disability Determination Services Administrative Cost Audits Completed in Fiscal Years 2000 Through 2003" (A-15-03-13061)--INFORMATION

We appreciate OIG's efforts in conducting this review. Our comments on the report are attached.

Please let us know if we can be of further assistance. Staff questions can be referred to Gail Scruggs at extension 54259.

Attachment:  
SSA Response

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT REPORT, "SUMMARY OF STATE DISABILITY DETERMINATION SERVICES ADMINISTRATIVE COST AUDITS COMPLETED IN FISCAL YEARS 2000 THROUGH 2003" (A-15-03-13061)**

Thank you for the opportunity to comment on this draft report. We continue to work toward implementation of the recommendations from the reports and have already implemented audit recommendations from 8 of the 15 audits where appropriate. We support OIG's plan to include an audit of SSA's oversight of DDS administrative costs in the OIG fiscal year 2005 Office of Audit Work Plan. We believe this will allow OIG the opportunity to provide continued input with regard to improving the Agency's oversight responsibility.

Below are our comments on the five major finding categories.

Indirect Costs

OIG states that "it is SSA's responsibility to ensure that: 1) The Office of Management and Budget (OMB) requirements and SSA policies and procedures are followed; 2) regional offices (RO) are proactive in monitoring and testing claimed indirect costs; and 3) that States' accounting staff are adequately trained to perform the necessary tasks involved in the planning and implementation of indirect rates and cost allocation plans (CAP)."

We agree that oversight of indirect costs has been challenging. In the past, we have requested OIG audits in specific States and cited questionable indirect costs as the reason for requesting the audit. We believe that testing of specific claimed costs is an audit function and properly suited for OIG.

However, as we pointed out in our February 20, 2004 comments to OIG's Report (A-07-03-23086), "Review of Social Security Administration's Oversight of Indirect Costs Claimed by the State Disability Determination Services," "...The cognizant Federal agencies have the necessary technical expertise and responsibility for acting on behalf of all Federal agencies. Therefore, duplicating the expertise required of the cognizant agency to deal with the very complicated State indirect cost agreements for the ten regions would appear difficult and wasteful of our limited resources."

Cash Management

OIG states it is important that SSA monitor the States' draw of SSA funds to ensure that States understand and comply with the requirements for drawing down funds and that they pay the required interest if they do not comply. Based on a previous review (OIG Report [A-07-00-10032], "Summary of Fiscal Year 2000 Single Audit Oversight Activities"), we issued DDS Administrators' Letter #586 on October 4, 2001, which reminded the DDSs about the Cash Management Improvement Act (CMIA) agreements

and asked DDS personnel to remind appropriate State personnel to adhere to the terms of their CMIA agreements with the Department of Treasury. In addition, as recommended by OIG, we are implementing an ongoing process to compare disbursements on the 4513s with draw downs on Automated Standard Application for Payments (ASAP) systems reports.

#### Consultative Examinations

We have been working with RO staffs to revise our policy in the area of consultative examination payments. We want to ensure that the DDSs comply with the current Federal/State regulations and, at the same time, achieve maximum cost effectiveness of their medical dollars. Program Operations Manual System (POMS) (39545.200) instructions are in place that inform the DDSs that the rates of payment for medical services may not exceed the highest rate paid by Federal or other government agencies in the State for similar types of services. On March 12, 1999, a DDS Administrators' Letter was issued instructing the DDSs that they must provide documentation and obtain approval when their fees are increased due to special circumstances. However, we believe that the testing of documents and ensuring that payments are properly authorized and disbursed are audit functions and properly reside with OIG.

#### All Other Non-Personnel Costs

We agree that it is SSA's responsibility to make sure that staff is adequately trained in the technical aspects of classifying non-personnel costs and we will continue to encourage our RO staffs to conduct appropriate training for State personnel.

#### Crosscutting

We agree that SSA should ensure that appropriate measures are taken to accurately account for and report on unliquidated obligations. By September 2004, we expect to issue instructions to our RO staffs to work with the States to review POMS 39506.812 which details requirements in this area. However, we believe that review of the propriety of specific communication charges and periodic reviews to identify incorrect charges to SSA programs are audit functions and reside with OIG.

## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Frederick C. Nordhoff, Director, Financial Audit Division

Lance Chilcoat, Audit Manager, DDS and Contract Audits (410) 965-9743

### ***Acknowledgments***

In addition to those named above:

Sandra Westfall, Senior Program Analyst

Annette DeRito, Writer/Editor

For additional copies of this report, please visit our web site at <http://www.ssa.gov/oig> or contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-1375. Refer to Common Identification Number A-15-03-13061.

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Social Security Advisory Board

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

### **Office of Audit**

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

### **Office of Executive Operations**

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

### **Office of Investigations**

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

### **Counsel to the Inspector General**

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.