

September 24, 1999

Ms. Virginia Flowers
Assistant Regional Commissioner
for Management and Operations Support
Social Security Administration, Region III
P.O. Box 8788
Philadelphia, Pennsylvania 19101

Dear Ms. Flowers:

Enclosed is the final report entitled, "Audit of the Administrative Costs Claimed by the Delaware Disability Determination Services" (A-13-98-52015). The objectives of this audit were to evaluate the Delaware Disability Determination Services' internal controls over the accounting and reporting of administrative costs, to determine the allowability and allocability of costs claimed, and to determine whether the aggregate of the Social Security Administration funds drawn down agreed with total expenditures.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to comment, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Frederick Nordhoff, Acting Director, Financial Management Audits Division, at (410) 966-6676.

Daniel R. Devlin
Acting Inspector General
for Audit

Enclosure

cc:
Andrew Marioni
Director
Delaware Disability Determination Services

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**AUDIT OF THE
ADMINISTRATIVE COSTS
CLAIMED BY THE
DELAWARE DISABILITY
DETERMINATION SERVICES**

September 1999

A-13-98-52015

AUDIT REPORT



EXECUTIVE SUMMARY

OBJECTIVE

The objectives of our audit were to:

- evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as the draw down of the Social Security Administration (SSA) funds;
- determine whether costs claimed on the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) for the period October 1, 1994 through September 30, 1997, were allowable and properly allocated; and
- determine whether the aggregate of the SSA funds drawn down agreed with total expenditures for the Fiscal Years (FY) 1995 through 1997 disability determinations.

BACKGROUND

The Disability Insurance (DI) program was established in 1954 under title II of the Social Security Act (*the Act*). The DI program is designed to provide benefits to wage earners and their families in the event the wage earner becomes disabled. Supplemental Security Income (SSI) was created as a result of the Social Security Amendments of 1972 with an effective date of January 1, 1974 (Public Law 92-603). SSI (title XVI of the Act) provides a nationally uniform program of income to financially needy individuals who are aged, blind, or disabled.

SSA is primarily responsible for implementing the general policies governing the development of the disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by an agency in each State according to Federal regulations. To carry out its obligation, each State agency (SA) is responsible for determining the claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each SA is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from claimants' physicians or other treating sources.

SSA pays the SA for 100 percent of allowable expenditures. Each year, the SA submits a budget request to SSA for review and approval. Once approved, the SA is allowed to withdraw Federal funds through the U.S. Department of Health and Human Services' Payment Management System or the Department of the Treasury's Automated Standard Application Payments System to meet immediate program expenses. At the

end of each quarter of the Federal FY, each SA submits to SSA a "State Agency Report of Obligations for SSA Disability Programs" (Form SSA-4513) to account for program disbursements and unliquidated obligations.

DE-DDS had an authorized budget of \$8,696,768 for disability determinations for the audited FYs 1995 through 1997.

We conducted our field work from August 1998 through January 1999 at DE-DDS in Wilmington, Delaware, and our office in Baltimore, Maryland. Our audit was conducted in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

We reviewed the administrative costs for personnel, medical services, fringe benefits, travel, equipment, and other nonpersonnel costs. We also reviewed the calculation of indirect costs. Our audit disclosed the following problems:

- INCORRECT EXPENSE PAYMENTS
- INCORRECT AGENCY PAYMENTS
- UNSUPPORTED COSTS

CONCLUSIONS AND RECOMMENDATIONS

We recommend DE-DDS take the following actions to resolve the problems found in our audit.

- Provide to SSA's Philadelphia Regional Office of Disability support for the correction of the cited medical consultant payments or reimburse SSA in the amount of \$14,424.
- Strengthen procedures to reduce the likelihood of repeat errors for medical consultant payments, medical evidence record and consultative examination payments.
- Repay SSA \$19,965 for the Delaware Division of Vocational Rehabilitation expenses that were incorrectly charged to SSA.
- Provide to SSA Philadelphia Regional Office of Disability adequate documentation to support the questioned cost of \$41,933 or provide reimbursement for the questioned amount.

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INTRODUCTION

OBJECTIVES

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SSA pays the SA for 100 percent of allowable expenditures. Each year, the SA submits a budget request to SSA for review and approval. Once approved, the SA is allowed to withdraw Federal funds through the U.S. Department of Health and Human Services'

Payment Management System or the U.S. Department of the Treasury's (Treasury) Automated Standard Application Payments System to meet immediate program expenses. At the end of each quarter of the Federal FY, each SA submits to SSA a "State Agency Report of Obligations for SSA Disability Programs" (Form SSA-4513) to account for program disbursements and unliquidated obligations.

Cash drawn from Treasury to pay for program expenditures is to be drawn according to Part 205 of title 31 of the Code of Federal Regulations (CFR) and in accordance with intergovernmental agreements entered into by Treasury and States under the authority of the Cash Management Improvement Act of 1990 (CMIA), Public Law 101-453, 104 Stat. 1058, as amended.

An advance or reimbursement for costs under the program must be made according to the Office of Management and Budget (OMB) Circular A-87, "Cost Principles for State and Local Governments."

Delaware Disability Determination Services (DE-DDS) is a component within the Delaware Department of Labor's (DE-DOL) Division of Vocational Rehabilitation (DE-DVR). DE-DDS' sole work is processing SSA disability determinations. DE-DDS maintains 1 location and employs approximately 32 personnel. SSA authorized a budget of \$8,696,768 for disability determinations for the audited FYs 1995 through 1997.

DE-DDS' financial reporting functions are primarily the responsibility of DE-DVR. Allocation of indirect costs is done according to a DE-DOL indirect cost agreement that is approved by the U.S. Department of Labor.

SCOPE AND METHODOLOGY

To accomplish the objectives, we obtained sufficient evidence to evaluate the financial transactions to determine whether they were allowable under OMB Circular A-87 and appropriate as defined by SSA's Program Operations Manual System (POMS). Further, we:

- reviewed title 20 CFR sections, the POMS, and other instructions pertaining to administrative costs incurred by DE-DDS and to the drawdown of SSA funds covered by the CMIA agreement;
- interviewed DE-DDS personnel, DE-DVR personnel, DE-DOL personnel, and SSA's staff at the Philadelphia Regional Office of Disability and the Headquarters Office of Disability;
- reviewed DE-DDS' general policies and procedures;

- reviewed and tested internal controls regarding accounting and financial reporting, and cash management activities;
- performed an examination of the administrative expenditures (personnel, medical service, indirect, and all other nonpersonnel costs) incurred and claimed by DE-DDS for the period October 1, 1994 through September 30, 1997;
- reconciled the official State accounting records to the administrative costs reported by DE-DDS to SSA on the Form SSA-4513 report for the period October 1, 1994 through September 30, 1997; and
- compared the amount of SSA funds drawn for support of program operations to the allowable expenditures.

We tested documents supporting the costs claimed by DE-DDS for the period October 1, 1994 through September 30, 1997, as reported to SSA as of June 30, 1998.

We conducted our field work in Wilmington, Delaware, at DE-DDS, DE-DOL and DE-DVR offices; and SSA Headquarters in Baltimore, Maryland, from August 1998 through January 1999. Our audit was performed in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

INCORRECT EXPENSE PAYMENTS

DE-DDS made incorrect expense payments for medical consultant, medical evidence record and consultative examination (MER/CE) expenses.

Medical consultants payments were incorrectly disbursed (see Appendix D). Out of the 134 payment vouchers (PV) reviewed, we found 9 PVs were erroneously paid. Seven PVs constituted \$14,424.39 (5.25 percent) of the \$274,658.28 for medical consultant expenses reviewed. A breakdown of the seven PVs shows:

- four PVs totaling \$10,527.05 were erroneously paid with FY 1996 funds instead of FY 1997 funds;
- two PVs totaling \$3,533.34 were erroneously paid with FY 1995 funds instead of FY 1994 funds; and
- one PV for \$364.00 was erroneously paid with FY 1996 funds instead of FY 1995.

Also, two PVs did not have required signatures. Agency certification of services was not indicated. Certification is required to verify attendance and amounts; and to support disbursement of funds. Lack of approval signatures could possibly cause incorrect payments to vendors.

In addition, MER/CE payments were made for incorrect amounts and used incorrect FY funds. Out of 294 PVs reviewed, four PVs contained the following errors:

- one PV for \$62.50 was for a CE overpayment; and
- three PVs totaling \$821.00 were erroneously paid in an incorrect FY.

POMS DI39506.809, "Establishing and Recording Obligations," paragraph B states that personal costs and related benefits include as obligations the amounts of salaries and wages earned by employees and others during the reporting period, regardless of payment date. Paragraph C states that obligations for consultative examinations and medical evidence of record should be recorded as of the date the authorizations are issued. DE-DDS has recorded obligations in the incorrect amount and incorrect reporting period.

We found the incorrect expense payments occurred as a result of staff error. The DE-DDS staff will review its accounting records to determine whether any adjustments have been made.

As a result of these errors, DE-DDS is not correctly spending SSA funds and has instances of incorrect and excessive payments.

INCORRECT AGENCY PAYMENTS

DE-DDS incorrectly charged \$19,965 of DE-DVR expenses for the period of October and November 1995 to DE-DDS (see Appendix D). The total amount of DE-DVR charges were billed to DE-DDS, instead of being appropriately charged to DE-DDS and DE-DVR. This occurred for 2 of the 36 PVs reviewed.

POMS DI39509.001, "Records and Reports," paragraph D3 (e) states that a purpose of records and reports is to support the disbursement of funds. DE-DDS records show that DE-DVR expenses were mistakenly charged to DE-DDS.

DE-DDS and DE-DVR personnel stated that these were payment errors made by the accounting staff.

As a result of the payment errors, DE-DDS was incorrectly reimbursed \$19,965 by SSA for expenses of DE-DVR.

UNSUPPORTED COSTS

DE-DDS has unsupported costs of \$41,933 (see Appendix D). We selected various sample items for verification testing during the audit. Of the costs reviewed, DE-DDS was unable to locate supporting documentation for \$41,933 of costs. The category breakdown is as follows:

Other Nonpersonnel Costs	\$41,588
Medical Service Costs	\$345

POMS DI39509.001, "Records and Reports," Paragraph D3 (e) states that a purpose of records and reports is to support the disbursement of funds. DE-DDS cannot support the disbursement of \$41,933 for the audit period of FYs 1995 through 1997.

DE-DDS personnel stated that they would continue to search for the missing documents. Further, staff stated that the majority of missing costs were from FY 1995, when the agency physically moved to a new location. Also at this time, DE-DOL changed from a centralized to a decentralized filing system.

The lack of documentation results in DE-DDS being unable to substantiate costs of \$41,933 for the audit period.

CONCLUSIONS AND RECOMMENDATIONS

With the exception for the preceding findings, DE-DDS has generally complied with financial requirements of the DDS program and other applicable Federal cost principles and regulations. DE-DVR and DE-DDS staff were very helpful and prompt in providing the required documentation needed to conduct our audit.

Based on the information obtained from SSA, DE-DDS, and the tests we performed, we recommend that DE-DDS:

1. Provide to SSA's Philadelphia Regional Office of Disability support for the correction of the cited medical consultant payments or reimburse SSA in the amount of \$14,424.
2. Strengthen procedures to reduce the likelihood of repeat errors for medical consultant payments, MER-CE payments.
3. Repay SSA \$19,965 for DE-DVR expenses that were incorrectly charged to SSA.
4. Provide to SSA Philadelphia Regional Office of Disability adequate documentation to support the questioned cost of \$41,933 or provide reimbursement for the questioned amount.

DELAWARE DDS COMMENTS

DE-DDS agrees with findings one and two. Concerning finding three, DE-DDS admitted it could not locate the documentation to support these costs, but stated that the costs were legitimate and paid correctly in good faith. DE-DDS requested a waiver from making changes to the accounting records, as reported in recommendation number one. DE-DDS also requested a waiver from reimbursing SSA for unsupported expenses of \$41,933 as noted in recommendation number four (see Appendix E for the full text of SSA and DE-DDS comments).

OIG RESPONSE

Without proper documentation, we cannot confirm that the costs identified in finding three were legitimate and correctly paid. The authority to accept or deny DE-DDS' waiver request is the responsibility of SSA.

APPENDICES

**OBLIGATIONS REPORTED/ALLOWED
DELAWARE DISABILITY DETERMINATION SERVICES
FOR FISCAL YEAR 1995 AS OF JUNE 30, 1998**

COSTS	TOTAL OBLIGATIONS			UNLIQUIDATED OBLIGATIONS			DISBURSEMENTS		
	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE
PERSONNEL	\$1,357,016	(\$3,533)	\$1,353,483	\$0	\$0	\$0	\$1,357,016	(\$3,533)	\$1,353,483
MEDICAL	468,780	(310)	468,470	0	0	0	468,780	(310)	468,470
INDIRECT	309,643	0	309,643	0	0	0	309,643	0	309,643
ALL OTHER	<u>838,478</u>	<u>(41,588)</u>	<u>796,890</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>838,478</u>	<u>(41,588)</u>	<u>796,890</u>
TOTAL	\$2,973,917	\$45,431	\$2,928,486	\$0	0	0	\$2,973,917	\$45,431	\$2,928,486

**OBLIGATIONS REPORTED/ALLOWED
DELAWARE DISABILITY DETERMINATION SERVICES
FOR FISCAL YEAR 1996 AS OF JUNE 30, 1998**

COSTS	TOTAL OBLIGATIONS			UNLIQUIDATED OBLIGATIONS			DISBURSEMENTS		
	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE
PERSONNEL	\$1,242,871	(\$10,891)	\$1,231,980	\$0	\$0	\$0	\$1,242,871	(\$10,891)	\$1,231,980
MEDICAL	479,124	(35)	479,089	0	0	0	479,124	(35)	479,089
INDIRECT	301,834	0	301,834	0	0	0	301,834	0	301,834
ALL OTHER	<u>691,841</u>	<u>(19,965)</u>	<u>671,876</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>691,841</u>	<u>(19,965)</u>	<u>671,876</u>
TOTAL	\$2,715,670	\$30,891	\$2,684,779	0	0	0	\$2,715,670	\$30,891	\$2,684,779

**OBLIGATIONS REPORTED/ALLOWED
DELAWARE DISABILITY DETERMINATION SERVICES
FOR FISCAL YEAR 1997 AS OF JUNE 30, 1998**

COSTS	TOTAL OBLIGATIONS			UNLIQUIDATED OBLIGATIONS			DISBURSEMENTS		
	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE
PERSONNEL	\$1,341,337	\$0	\$1,341,337	\$0	\$0	\$0	\$1,341,337	\$0	\$1,341,337
MEDICAL	815,966	0	815,966	0	0	0	815,966	0	815,966
INDIRECT	317,762	0	317,762	0	0	0	317,762	0	317,762
ALL OTHER	<u>532,116</u>	<u>0</u>	<u>532,116</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>532,116</u>	<u>0</u>	<u>532,116</u>
TOTAL	\$3,007,181	\$0	\$3,007,181	0	0	0	\$3,007,181	\$0	\$3,007,181

QUESTIONED COSTS

Incorrect Medical Consultant Payments

Invoice	App. Code	Amount	<i>Totals</i>
<i>Non-Personnel</i>			
PV600123794	1295	1,366.67	
PV600123795	1295	2,166.67	3,533.34
PV601248925	1296	364.00	
EX6008200000293	1296	4,132.70	
EX6008200000294	1296	2,431.00	
EX6008200000295	1296	2,066.35	
EX6008200000296	1296	1,897.00	10,891.05
Total			14,424.39

Incorrect Non-Personnel Payments

Invoice	App. Code	Amount	<i>Totals</i>
EX6017548-IV60601068455	1296	15,800.54	
EX6017548-IV60601068427	1296	4,164.60	
Total Incorrect Payments			19,965.14

Unsupported Costs

Invoice	App. Code	Amount	Totals
<i>Non-Personnel</i>			
EX6008200000099	1295	370.00	
IV60601006374 02	1295	6,666.82	
IV606010311603 02	1295	13,450.50	
IV60601031413 02	1295	9,374.59	
IV60601031616 01	1295	598.00	
IV60601049931 02	1295	10,742.81	
PV600131926 01	1295	321.12	
PV60490663PE	1295	64.00	
<i>Non-Personnel Total</i>			41,587.84
<i>MER/CE</i>			
PV600014314 18	1295	4.00	
PV600014692 10	1295	10.00	
PV600016090 05	1295	125.00	
PV600016587 02	1295	145.00	
PV600017056 05	1295	26.00	310.00
PV600019305 35	1296	35.00	35.00
<i>MER/CE Total</i>			345.00
Total Unsupported Costs			41,932.84

SSA AND DE-DDS COMMENTS

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For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-5998. Refer to Common Identification Number A-13-98-52015.

SSA ORGANIZATIONAL CHART
