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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  
MAINE DISABILITY  
DETERMINATION SERVICES**

November 2005

A-01-05-15026

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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.**



## SOCIAL SECURITY

### MEMORANDUM

Date: November 14, 2005

Refer To:

To: Manuel J. Vaz  
Regional Commissioner  
Boston

From: Inspector General

Subject: Administrative Costs Claimed by the Maine Disability Determination Services  
(A-01-05-15026)

For our audit of Fiscal Years (FY) 2001, 2002, and 2003 administrative costs claimed by the Maine Disability Determination Services (ME-DDS), our objectives were to:

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

### **BACKGROUND**

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction, according to Federal regulations.<sup>1</sup> Each DDS is responsible for determining claimants' disabilities and assuring that adequate evidence is available to support its determinations. To make proper disability determinations, each State agency is authorized to purchase consultative medical examinations and medical evidence of record from the claimants' physicians or other treating sources. SSA pays the State agency for 100 percent of allowable expenditures using a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513). (For additional background information, see Appendix B of this report.)

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

## **RESULTS OF REVIEW**

We determined that costs claimed on Forms SSA-4513 for the period October 1, 2000 through September 30, 2003 were allowable and properly allocated and the system of internal controls was effective. Also, the aggregate of the SSA funds drawn down agreed with total expenditures as reported by ME-DDS for disability determinations in FYs 2001 through 2003. Finally, our limited review of the ME-DDS' security controls environment showed that controls were in place. (See Appendix C for costs reported on Forms SSA-4513.)

## **INDIRECT COSTS**

A final indirect cost rate was approved for FY 2001 and for the first 9 months of FY 2002. However, a final rate has not been approved for the last 3 months of FY 2002 and all of FY 2003; therefore, a provisional indirect cost rate was used. We determined that the indirect cost bases used by ME-DDS in FYs 2001, 2002 and 2003 were reasonable and that the DDS applied the final and provisional indirect cost rates appropriately.

## **CONCLUSION**

We determined that the ME-DDS had effective internal controls over the accounting and reporting of administrative costs. Also, we concluded that the general security controls the ME-DDS had in place were satisfactory.

## **AGENCY COMMENTS**

SSA and the Maine Department of Health and Human Services informed us that they had no comments on our report.



Patrick P. O'Carroll, Jr.

# *Appendices*

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[APPENDIX A](#) – Acronyms

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

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

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

## Acronyms

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

## **Background, Scope, and Methodology**

### **BACKGROUND**

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

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both the DI and SSI programs are performed by disability determination services (DDS) in each State, Puerto Rico and the District of Columbia in accordance with Federal regulation.<sup>1</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system to pay for program expenditures. Funds drawn down must comply with Federal regulations<sup>2</sup> and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act of 1990.<sup>3</sup> An advance or reimbursement for costs under the program must comply with the Office of Management and Budget's (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the Fiscal Year (FY), each DDS submits a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) to account for program disbursements and unliquidated obligations.

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

<sup>2</sup> 31 C.F.R. Part 205.

<sup>3</sup> Pub. L. No. 101-453; 31 U.S.C. § 6503.

## SCOPE

To accomplish our objectives, we reviewed the administrative costs Maine Disability Determination Services (ME-DDS) reported on its Forms SSA-4513 for FYs 2001, 2002 and 2003. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions and determine whether they were allowable under OMB Circular A-87, and appropriate, as defined by SSA's Program Operations Manual System.

We also:

- Reviewed applicable Federal regulations and pertinent parts of Program Operations Manual System DI 39500, *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by ME-DDS and draw down of SSA funds covered by the Cash Management Improvement Act.
- Interviewed staff at ME-DDS and the SSA Regional Office.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Verified the reconciliation of official State accounting records to the administrative costs reported by ME-DDS on Forms SSA-4513 for FYs 2001, 2002 and 2003.
- Examined the administrative expenditures (personnel, medical service, and all other non-personnel costs) incurred and claimed by ME-DDS for FYs 2001, 2002 and 2003 on Forms SSA-4513.
- Examined the indirect costs claimed by ME-DDS for FYs 2001, 2002 and 2003 and the corresponding Indirect Cost Rate Agreements.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Reviewed the State of Maine Single Audit reports issued in 2001, 2002 and 2003.
- Conducted limited general control testing—which encompassed reviewing the physical access security within the DDS.

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

We performed our audit at the ME-DDS in Augusta, Maine and the Office of Audit in Boston, Massachusetts from June through September 2005. We conducted our audit in accordance with generally accepted government auditing standards.



## **METHODOLOGY**

Our sampling methodology encompassed the four general areas of costs as reported on Forms SSA-4513: (1) personnel, (2) medical, (3) indirect, and (4) all other non-personnel costs. We obtained computerized data from ME-DDS for FYs 2001, 2002, and 2003 for use in statistical sampling. Also, we reviewed general security controls the DDS had in place.

### **Personnel Costs**

We sampled 65 employee salary items from 1 randomly selected pay period in FY 2003. We tested regular and overtime payroll and hours for each individual selected. We verified that approved time records were maintained and supported the hours worked. We tested payroll records to ensure the ME-DDS correctly paid employees and adequately documented these payments.

We also sampled 50 randomly selected medical consultant costs from FY 2003. We determined whether sampled costs were reimbursed properly and ensured the selected medical consultants were licensed.

### **Medical Costs**

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

### **Indirect Costs**

We reviewed the indirect cost base and computations used to determine those costs for reimbursement purposes. Our objective was to ensure SSA reimbursed ME-DDS in compliance with the approved Indirect Cost Rate Agreement. We analyzed the approved rate used, ensuring the indirect cost rate changed when the Indirect Cost Rate Agreement was modified. We reviewed the documentation and traced the base amounts to Forms SSA-4513 for the indirect cost computation components. We determined whether the approved rate used was a provisional, predetermined, or final rate.<sup>4</sup>

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<sup>4</sup> SSA specifically asked us to review the indirect cost rate in a letter dated May 19, 2005.

## **All Other Non-Personnel Costs**

We stratified all other non-personnel costs into 10 categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing (EDP) Maintenance, (4) New EDP Equipment/Upgrades, (5) Equipment Purchases and Rental, (6) Communications, (7) Applicant Travel, (8) DDS Travel, (9) Supplies, and (10) Miscellaneous. We selected a stratified random sample of 50 items from each FY based on the percentage of costs in each category to total costs.<sup>5</sup>

## **General Security Controls**

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

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<sup>5</sup> In FY 2003, ME-DDS had 2 large equipment purchases, which we excluded from our random sample population. We tested these 2 purchases, as well as 50 random sample items, for a total of 52 items in FY 2003.

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

### Maine Disability Determination Services

FISCAL YEARS (FY) 2001, 2002 and 2003 COMBINED			
REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$11,513,176	\$0	\$11,513,176
Medical	\$5,660,635	\$0	\$5,660,635
Indirect	\$1,444,218	(\$592,650)	\$851,568
All Other	\$2,375,163	\$0	\$2,375,163
TOTAL	\$20,993,192	(\$592,650)	\$20,400,542

FY 2001			
REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$3,581,444	\$0	\$3,581,444
Medical	\$1,605,100	\$0	\$1,605,100
Indirect	\$24,981	\$0	\$24,981
All Other	\$702,998	\$0	\$702,998
TOTAL	\$5,914,523	\$0	\$5,914,523

FY 2002			
REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$3,908,167	\$0	\$3,908,167
Medical	\$2,044,990	\$0	\$2,044,990
Indirect	\$275,961	\$134,140	\$410,101
All Other	\$770,724	\$0	\$770,724
TOTAL	\$6,999,842	\$134,140	\$7,133,982

<b>FY 2003</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	\$4,023,565	\$0	\$4,023,565
Medical	\$2,010,545	\$0	\$2,010,545
Indirect	\$1,143,276	(\$726,790) <sup>1</sup>	\$416,486
All Other	\$901,441	\$0	\$901,441
<b>TOTAL</b>	<b>\$8,078,827</b>	<b>(\$726,790)</b>	<b>\$7,352,037</b>

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<sup>1</sup> During FY 2003, the approved provisional indirect cost rate for ME-DDS was 25 percent. The current approved provisional indirect cost rate for ME-DDS is 10.4 percent. The \$1,143,276 in the disbursements column was calculated using the 25 percent provisional indirect cost rate. The \$416,486 in the total obligations column is the amount the ME-DDS is currently entitled to based on the provisional indirect cost rate of 10.4 percent. The unliquidated obligation (\$726,790) is the difference between the \$1,143,276 calculated at the 25 percent indirect cost rate and the \$416,486 calculated at the 10.4 percent rate. When a final indirect cost rate for FY 2003 is approved, ME-DDS will recalculate the amount of indirect cost they are entitled to and will close out this unliquidated obligation by returning to SSA the difference between the \$1,143,276 in indirect costs that they have received and the amount they should receive based on the final approved indirect cost rate.

## **OIG Contacts and Staff Acknowledgments**

### **OIG CONTACTS**

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

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

### **ACKNOWLEDGMENTS**

In addition to those named above:

Frank Salamone, Auditor

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-01-05-15026.

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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 Executive Operations (OEO). 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 Executive Operations**

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