
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**DISCLOSURE STATEMENT REVIEW OF
MAXIMUS, INC. HOME OFFICE AND
HEALTH OPERATIONS DIVISIONS**

NOVEMBER 2004

A-15-04-34097

AUDIT REPORT



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 23, 2004

Refer To:

To: Dale Sopper
Deputy Commissioner
Office of Finance, Assessment and Management

From: Assistant Inspector General
for Audit

Subject: Disclosure Statement Review of Maximus Inc. Home Office and Health Operations Divisions (A-15-04-34097)

OBJECTIVE

Our objectives were to determine whether the revised disclosure statements for the Home Office and Health Operations Divisions of Maximus, Inc., dated January 20, 2004, a contractor for the Social Security Administration (SSA), were in compliance with appropriate regulations.

BACKGROUND

Certain contractors and subcontractors, such as Maximus, Inc., are required by Public Law 100-679¹ to comply with Federal Cost Accounting Standards, once they are awarded a contract that exceeds \$500,000. Those standards provide instructions for contractors and subcontractors on the appropriate methodology to use when accounting for costs incurred and the necessity to make written disclosure that the standards have been followed.²

Federal Acquisition Regulations (FAR) state that the cognizant auditor is responsible for conducting reviews of disclosure statements for adequacy and compliance.³ Agency cognizance is determined to be the agency with the predominant financial interest and that agency should arrange for all audits at an organization. FAR requires the auditor to recommend whether the disclosure statements satisfactorily describe the cost accounting practices. Since SSA has the largest dollar amount of negotiated contracts, including options, with Maximus, Inc., SSA is the cognizant agency.

¹ Office of Federal Procurement Policy Act Amendments of 1988.

² 48 C.F.R. Part 30.

³ 48 C.F.R. §§ 30.202-1 *et seq.* and 9903.202-1 *et seq.*

Maximus, Inc. has submitted to SSA revised disclosure statements to reflect changes in the disclosure statement requirements and changes to the corporate structure at Maximus, Inc. Maximus' prior disclosure statements were dated December 7, 1994.

CONCLUSION

Our review determined the revised disclosure statements adequately described Maximus' revised cost accounting practices. The practices, as described in the revised disclosure statements, comply with applicable Cost Accounting Standards.



Steven L. Schaeffer
Steven L. Schaeffer

Appendices

APPENDIX A – Accounting Practices

APPENDIX B – Scope and Methodology

APPENDIX C – OIG Contacts and Staff Acknowledgments

Appendix A

Accounting Practices

Based on our review of the disclosure statements, we determined that the following cost accounting practices in the disclosure statements have the greatest impact on Federal contracts:

Home Office:

1. Item 1.4.0 – Description of Cost Accounting System – Actual costs – Job order
2. Item 1.6.0 – Unallowable Costs
3. Item 6.1.0 – Method of Charging and Crediting Vacation, Holiday and Sick Pay
4. Item 8.1.0 – Organizational Structure
5. Item 8.3.0 – Expenses or Pools of Expenses and Methods of Allocation

Health Operations:

1. Item 1.4.0 – Description of Cost Accounting System – Actual costs – Job order
2. Item 1.6.0 – Unallowable Costs
3. Item 2.2.0 – Method of Charging Direct Material
4. Item 2.5.0 – Method of Charging Direct Labor
5. Item 2.7.0 – Description of Other Direct Costs
6. Item 2.8.0 – Credits to Contract Costs
7. Item 3.2.0 – Treatment of Costs of Specified Functions, Elements of Cost, or Transactions
8. Item 4.1.0 – Overhead Pools
9. Item 4.2.0 – General and Administrative (G&A) Pool(s)
10. Item 4.5.0 – Application of Overhead & G&A Rates to Specified Transactions or Costs
11. Item 4.6.0 – Independent Research and Development (IR&D) and Bid and Proposal (B&P) Costs

Appendix B

Scope and Methodology

Our review focused on the revised disclosure statements for Maximus, Inc. Home Office and Health Operations Divisions. We reviewed the Cost Accounting Standards and obtained an understanding of how the Cost Accounting Standards¹ relate to the adequacy and compliance of the disclosure statements.

We determined the following cost accounting standards apply to Maximus, Inc.

COST ACCOUNTING STANDARD²	TITLE
401	Consistency in Estimating, Accumulating and Reporting Costs
402	Consistency in Allocating Costs Incurred for the Same Purpose
403	Allocation of Home Office Expenses to Segments
404	Capitalization of Tangible Assets
405	Accounting for Unallowable Costs
406	Cost Accounting Period
408	Accounting for Costs of Compensated Personal Absence
409	Depreciation of Tangible Capital Assets
412	Composition and Measurement of Pension Cost
413	Adjustment and Allocation of Pension Cost
415	Cost of Deferred Compensation
418	Allocation of Direct and Indirect Costs
420	Accounting for Independent Research and Development Costs and Bid and Proposal Costs

We identified the accounting practices with the greatest impact on Government contracts (see Appendix A). We verified on a test basis that these practices were being applied by Maximus, Inc.

¹ Issued by the Cost Accounting Standards Board and incorporated in 48 C.F.R. Part 30.

² 48 C.F.R. Part 9904.

We also tested the logical interrelationships between data within the disclosure statements. We reviewed the disclosure statements to determine whether they adequately described Maximus' cost accounting practices and whether the disclosed practices complied with the appropriate rules, regulations and standards.

Our review was limited to reviewing the Home Office and Health Operations Divisions' disclosure statements submitted by Maximus, Inc. We reviewed the statements for adequacy and compliance to verify that the contractor's actual accounting practices were the same as those in the disclosure statements.

We conducted our review in accordance with generally accepted government auditing standards. Our fieldwork was performed in Baltimore, Maryland; and Reston, Virginia between March and October 2004.

Appendix C

OIG Contacts and Staff Acknowledgments

OIG Contacts

Lance Chilcoat, Audit Manager, (410) 965-9743

Acknowledgments

In addition to those named above:

Jackie Patel, Auditor-in-Charge

Sandra Westfall, Program Analyst

Annette DeRito, Writer-Editor

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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.

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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.