

Office of the Inspector General

James Fornataro  
Associate Commissioner  
for Office of Acquisition and Grants

Assistant Inspector General  
for Audit

Costs Claimed by the State of Michigan on the Social Security Administration's Contract Number 600-94-13780

The enclosed final report presents the results of our audit of the costs claimed by the State of Michigan on the Social Security Administration's Contract Number (CN) 600-94-13780 (A-13-98-81033). The objective of our audit was to determine if costs claimed by the State of Michigan for CN 600-94-13780 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract. This report also provides the contracting officer with cost information to determine the final value of the contract and use in closing out the contract.

You may wish to comment on any further action taken or contemplated on our recommendation. If you choose to offer comments, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me at (410) 965-9700.

Pamela J. Gardiner

Attachment

cc:  
Yvette S. Jackson  
Deputy Commissioner for Finance,  
Assessment and Management

Mr. Robert Davis, State Director  
Michigan Jobs Commission  
Michigan Rehabilitation Services  
PO Box 30010  
Lansing, Michigan 48909

Dear Mr. Davis:

The enclosed draft report presents the results of our audit of the costs claimed by the State of Michigan on the Social Security Administration's Contract Number (CN) 600-94-13780 (A-13-98-81033). The objective of our audit was to determine if costs claimed by the State of Michigan for CN 600-94-13780 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

You may wish to comment on any further action taken or contemplated on our recommendation. If you choose to offer comments, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me at (410) 965-9700.

Pamela J. Gardiner

Enclosure

cc:  
Yvette S. Jackson  
Deputy Commissioner for Finance,  
Assessment and Management

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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**COSTS CLAIMED BY THE STATE OF  
MICHIGAN ON THE SOCIAL  
SECURITY ADMINISTRATION'S  
CONTRACT NUMBER 600-94-13780**

September 1998

**A-13-98-81033**

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**AUDIT REPORT**

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# **EXECUTIVE SUMMARY**

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## **OBJECTIVE**

The objective of this audit was to determine if costs claimed by the State of Michigan for Contract Number (CN) 600-94-13780 were allowable, allocable and reasonable in accordance with applicable Federal regulations and the terms of the contract. This report also provides the Contracting Officer (CO) with cost information to determine final value of the contract and use in closing out the contract.

## **Background**

The Social Security Administration's (SSA) Office of Acquisition and Grants (OAG) requested an audit of costs incurred by the State of Michigan (CN 600-94-13780) for Referral and Monitoring Agency (RMA) services to refer, assess, and monitor drug addicts and alcoholics (DA&A) receiving Supplemental Security Income (SSI) benefits.<sup>1</sup> The contracted service period was from July 1, 1994 through September 24, 1995. The costs claimed under CN 600-94-13780 are defined in terms of the contract, Federal Acquisition Regulations (FAR) and the Office of Management and Budget (OMB) Circular A-87. This circular provides criteria to establish allowability, allocability, and reasonableness of costs claimed by the State for Federal cost reimbursement contracts.<sup>2</sup>

We limited our audit to the review of costs incurred by the State of Michigan for CN 600-94-13780. We did not assess, and do not express an opinion of the overall acceptability of the State of Michigan internal controls or accounting system. We performed our audit work at the State of Michigan, Michigan Jobs Commission, located in Lansing, Michigan. We also performed work at OAG located at SSA Headquarters in Baltimore, Maryland. The field work was conducted from February 1998 through May 1998.

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<sup>1</sup> SSI provides income maintenance payments to low-income individuals who are aged, blind, or disabled. DA&As were determined disabled if they met income and other eligibility requirements, but this category was eliminated in March 1996 by Public Law 104-121. However, prior to the elimination of the DA&A category, each State had an RMA contractor who referred, assessed, and monitored both title II and title XVI DA&A recipients.

<sup>2</sup> OMB Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments."

## **RESULTS OF REVIEW**

The State of Michigan claimed a total of \$1,050,542 for CN 600-94-13780. Except for \$13,004 in questioned labor and related fringe benefit costs, we determined the claimed costs were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

## **RECOMMENDATION**

We recommend that SSA recover the questioned costs of \$13,004 from the State of Michigan on CN 600-94-13780.

## **SSA COMMENTS**

SSA agreed with the intent of the recommendation. However, the Agency did not provide comments and will consider the recommendation at the time of negotiation and administrative close-out of the contract. (See Appendix B for the full text of the Agency's comments.)

## **STATE OF MICHIGAN COMMENTS**

No comments received.

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# **INTRODUCTION**

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## **OBJECTIVE**

The objective of this audit was to determine if costs claimed by the State of Michigan for CN 600-94-13780 were allowable, allocable and reasonable in accordance with applicable Federal regulations and the terms of the contract. This report also provides the CO with cost information to determine the final value of the contract and use in closing out the contract.

## **BACKGROUND**

SSA's OAG, requested an audit of costs incurred by the State of Michigan under its contract (CN 600-94-13780) for RMA services to refer, assess, and monitor DA&As receiving SSI benefits. The contracted service period was from July 1, 1994 through September 24, 1995.

The costs claimed under CN 600-94-13780 are defined in terms of the contract. Additionally, *OMB Circular A-87* provides criteria that establish allowability, allocability, and reasonableness of costs claimed by the State for Federal cost reimbursement contracts.

## **SCOPE AND METHODOLOGY**

We limited our audit to the review of costs incurred by the State of Michigan for CN 600-94-13780. We did not assess, and do not express an opinion of the overall acceptability of the State of Michigan internal controls or accounting systems.

We did review, on a limited basis, the contractor's internal controls. In doing so, we assessed control risk as "high" and expanded our substantive tests, which our audit reflects and which provides a reasonable basis for our conclusions. We also examined, on a test basis, evidence supporting the amounts claimed; inspected disclosures in the data; reviewed records; assessed the accounting principles used and significant estimates made by the contractor; and evaluated the overall data and records presentation.

To evaluate claimed costs, we used FAR, *OMB Circular A-87*, plus the terms and conditions of the contract. Costs that did not meet the requirements of FAR, this circular, and the contract were questioned for SSA's use in determining the final value of the contract and closing it out.

Work was performed at the State of Michigan, Michigan Jobs Commission located in Lansing, Michigan and OAG located at SSA Headquarters in Baltimore, Maryland. The field work was conducted from February 1998 through May 1998. Our audit was conducted in accordance with generally accepted government auditing standards.

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# RESULTS OF REVIEW

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Except for the questioned costs discussed below, we determined that the costs claimed by the State of Michigan on CN 600-94-13780 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

## **INAPPROPRIATELY CLAIMED LABOR AND RELATED FRINGE BENEFIT COSTS ARE QUESTIONED**

### ***Labor Costs and Related Fringe Benefit Costs***

We question whether \$9,027 of the labor costs claimed by the State of Michigan are allowable because the costs claimed are in excess of the employees actual labor rates. This is a violation of *OMB Circular A-87*, section B-11, “*Compensation for personnel services.*” Likewise, the fringe benefits (\$3,977) associated with the over billed labor costs are also questioned.

Table 1 - Schedule of Questioned Costs

<b>Questioned Costs Items</b>	<b>Questioned Costs</b>
<b><i>State of Michigan Costs:</i></b> Labor Costs Fringe Benefits <b><i>Total State of Michigan Costs</i></b>	\$ 9,027 3,977 <b>\$13,004</b>
<b><i>TOTAL QUESTIONED COSTS</i></b>	<b><u>\$13,004</u></b>

To assist the CO in determining the final value and contract close out of the above contract, we have included detailed analyses of the auditor’s evaluation methodology in determining recommended contract costs in Appendix A.

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## **RECOMMENDATION**

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### **RECOMMENDATION**

We recommend that SSA recover the questioned costs of \$13,004 from the State of Michigan on CN 600-94-13780.

### **SSA COMMENTS**

SSA agreed with the intent of the recommendation. However, the Agency did not provide comments and will consider the recommendation at the time of negotiation and administrative close-out of the contract. (See Appendix B for the full text of the Agency's comments.)

### **STATE OF MICHIGAN COMMENTS**

No comments received.

# **APPENDICES**

# Schedules and Explanatory Notes for Claimed and Recommended Costs on Contract Number (CN) 600-94-13780

We question \$13,004 of the costs claimed by the State of Michigan on CN 600-94-13780. This appendix provides the following details:

- Table 1<sup>1</sup> depicting claimed, recommended, and questioned cost by the State of Michigan; and
- Explanatory notes detailing the auditor's conclusions; contractor's basis of claimed costs; and auditor's evaluation methodology used to determine the questioned and/or recommended costs.

**Table 1 - Costs Claimed by the State of Michigan on CN 600-94-13780**

Cost Element	Claimed	Recommended	Questioned	Reference or Note
Direct Labor	\$ 480,581	\$ 471,554	\$ 9,027	<b>Note 1</b>
Fringe Benefits	211,885	207,908	3,977	<b>Note 2</b>
Kelly Temp Services	44,353	44,353	0	
Communications	54,627	54,627	0	
Postage & Delivery	10,767	10,767	0	
Supplies	51,376	51,376	0	
Office Space Rental	40,396	40,396	0	
Miscellaneous	55,376	55,376	0	
Travel	30,629	30,629	0	
Equipment	66,448	66,448	0	
Indirect Charges	4,105	4,105	0	
<b>Total Costs</b>	<b><u>\$1,050,543</u></b>	<b><u>\$1,037,539</u></b>	<b><u>\$ 13,004</u></b>	

<sup>1</sup> The amounts in Table 1 are rounded to the dollar. Any differences are due to rounding.

## APPENDIX A

### **Explanatory Notes:**

#### **1. State of Michigan - Direct Labor**

##### a. Summary of Conclusions:

We question \$9,027 of direct labor costs because the State of Michigan claimed labor costs that were greater than the individual actual labor rates for two employees. These costs are questioned under section B-11 of the *Office of Management and Budget (OMB) Circular A-87* which states that “... compensation for personnel services includes all remuneration, paid currently or accrued for services rendered during the period of performance under Federal awards.”

##### b. Basis of Claimed Costs:

Except for two employees, the State of Michigan claimed direct labor costs based on actual labor rates. For the two exceptions, the State of Michigan claimed labor costs based on estimated direct labor billing rates.

##### c. Audit Evaluation:

We used the employees' actual labor rates and applied those labor rates to the recommended labor hours for the individuals assigned to the contract.

#### **2. State of Michigan - Fringe Benefits**

##### a. Summary of Conclusions:

Because we question direct labor charges, we also question \$3,977 of the related fringe benefits claimed by the State of Michigan.

##### b. Basis of Claimed Costs:

The State of Michigan claimed fringe benefits that are equivalent to 44.09 percent of direct labor costs.

##### c. Audit Evaluation:

Direct labor is the allocation base for which fringe benefit rates are applied. To derive questioned fringe benefit costs, we applied the average fringe benefit rate of 44.09 percent to our questioned direct labor costs.

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**APPENDIX B**

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## **SSA COMMENTS**

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## **MAJOR CONTRIBUTORS TO THIS REPORT**

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### **Office of Inspector General**

Gale S. Stone, Director, Financial Management Audits

Shirley E. Todd, Auditor Manager

Jim Klein, Project Leader

Suzanne Valett, Auditor in Charge

Additional Assistance from:

Greylen High, Senior Auditor

Glenn Lee, Auditor

## **SSA ORGANIZATIONAL CHART**

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