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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**THE SOCIAL SECURITY  
ADMINISTRATION'S OVERSIGHT  
OF INDIRECT COSTS CLAIMED  
BY DISABILITY DETERMINATION  
SERVICES**

**March 2004      A-07-03-23086**

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**AUDIT REPORT**

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**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.**

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- **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.**
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**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: March 16, 2004

Refer To:

To: The Commissioner

From: Acting Inspector General

Subject: The Social Security Administration's Oversight of Indirect Costs Claimed by Disability Determination Services (A-07-03-23086)

### OBJECTIVE

The objective of our review was to determine if the Social Security Administration's (SSA) oversight of indirect costs claimed by Disability Determination Services (DDS) was adequate to ensure that the costs benefit its disability programs equitably.

### BACKGROUND

SSA reimburses DDSs for 100 percent of allowable expenditures incurred in making disability determinations under the Disability Insurance and Supplemental Security Income programs.<sup>1</sup> The expenditures include both direct and indirect costs. Direct costs are those that are readily identifiable to the DDS, such as the costs incurred to purchase medical services.<sup>2</sup> Indirect costs arise from activities that benefit multiple State and Federal agencies but are not readily identifiable to the DDS.<sup>3</sup> Indirect costs include services, such as accounting, auditing, budgeting, and payroll that benefit all agencies in a State. For Fiscal Years (FY) 1998 through 2002, SSA reimbursed DDSs about \$489 million for indirect costs, as shown in the following table.

FY	DDS Indirect Costs
2002	\$108,585,503
2001	99,756,430
2000	95,535,950
1999	90,956,936
1998	94,218,208
<b>Total</b>	<b>\$489,053,027</b>

<sup>1</sup> 20 C.F.R. §§ 404.1626 and 416.1026; Program Operations Manual System DI 39501.020.

<sup>2</sup> 48 C.F.R. § 31.202; Office of Management and Budget Circular A-87, Attachment A, § E-1.

<sup>3</sup> 48 C.F.R. § 31.203; Office of Management and Budget Circular A-87, Attachment A, § F-1.

In accordance with the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, States can allocate indirect costs to the Federal government based on the terms of an indirect cost rate and/or a cost allocation plan (rate/plan).<sup>4</sup> The State-developed rate/plan is reviewed, negotiated, and approved by the cognizant Federal agency.<sup>5</sup> Upon the cognizant agency's approval, the rate/plan is to be used by all Federal agencies that provide funds to the State agency(s) covered by the rate/plan, unless prohibited by statute. Appendix B provides additional background information on indirect costs and the scope and methodology of our review.

## RESULTS OF REVIEW

Our review disclosed opportunities for SSA to improve its oversight of indirect costs claimed by DDSs to ensure that SSA funds obligated by DDSs through the indirect cost process benefit SSA's disability programs and the costs are equitably distributed to its programs. Improvements are needed because SSA's current oversight process

- relies on the cognizant Federal agencies to represent SSA's interest in the rate/plan review, negotiation, and approval processes. However, the cognizant agencies' process is not designed to represent SSA's interest to the extent that it would identify all incorrect or inequitable indirect cost allocations 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 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.

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<sup>4</sup> 20 C.F.R. §§ 404.1626 and 416.1026; OMB Circular A-87, Attachment E, § A.3.

<sup>5</sup> OMB Circular A-87, Attachment A, § B.6. defines a cognizant Federal agency as "the Federal agency responsible for reviewing, negotiating, and approving cost allocation plans or indirect cost proposals developed under this Circular on behalf of all Federal agencies." OMB Circular A-87, Attachment E, § D.1.b. gives the title of cognizant agency, if not defined by OMB, to the agency that provides the most funding to the State.

## SSA RELIES ON THE COGNIZANT AGENCY TO REPRESENT ITS INDIRECT COST INTERESTS

We found SSA places considerable discretion with the cognizant Federal agencies to represent SSA's interest during the review, negotiation, and approval of indirect cost rates/plans. However, the cognizant agency's review is focused on whether or not the rate/plan meets Federal requirements.<sup>6</sup> The cognizant agency does not have specific program information on DDSs or have a detailed understanding of the DDS' operations, so it cannot make a precise determination as to whether the rate/plan will result in a proper and equitable allocation of costs to SSA. Furthermore, while OMB designated responsibility to certain agency's to review, negotiate, and approve indirect cost rates/plans for indirect costs charged by DDSs, SSA is ultimately responsible for ensuring that DDSs are reimbursed for only those costs that are necessary for making disability determinations under its programs.<sup>7</sup>

*Regional Offices expressed concern that the cognizant agency does not adequately represent SSA's interest.*

By accepting the cognizant agency's approval of the indirect cost rate/plan without determining its effect on SSA funds, SSA is placed at risk of reimbursing DDSs for indirect cost services for which it received no benefit. This is an actual risk because the Office of the Inspector General (OIG) administrative cost audits have identified inequitable and incorrect indirect cost charges to SSA (see Appendix C for OIG findings on indirect costs).

To determine if the rate/plan adequately reflects the level of services the DDS receives, SSA needs to take a more active role in this process. This role includes, in part, establishing relationships with the cognizant Federal agencies to provide input before the rate/plan is approved. Currently, only one SSA regional office has routine contacts with cognizant agencies. The other nine regional offices stated they had limited or no contact with the cognizant agencies. Furthermore, some regions have experienced considerable difficulties with one cognizant Federal agency, the Department of Education (DoE).

- DoE refused to provide the Dallas regional office with indirect cost proposals prior to approval so that the regional office could provide input.
- The Denver regional office stated that the DoE was not willing to discuss the indirect cost rates/plans.

We interviewed management officials responsible for the three cognizant Federal agencies that review, negotiate, and approve rates/plans for indirect costs charged to DDSs – Department of Health and Human Services, Department of Labor, and Department of Education. Each of these officials stated that SSA was welcome to

<sup>6</sup> See Appendix B for the basic steps in the cognizant agency review process.

<sup>7</sup> 20 C.F.R. §§ 404.1626 and 416.1026.

discuss indirect costs with their indirect cost negotiators. SSA's Office of Disability Determinations should establish a working relationship with these agencies to ensure that SSA has a voice in the review, negotiation, and approval of indirect costs rates/plans.

### **REGIONAL OFFICES HAVE A LIMITED UNDERSTANDING OF THE COMPLEX INDIRECT COST RATES AND PLANS**

To adequately review an indirect cost rate/plan, SSA must possess a technical knowledge of indirect costs. However, most regional offices stated they have only a basic knowledge of indirect costs. In fact, 8 of the 10 regional offices informed us they do not have the expertise needed to adequately review rates/plans and/or monitor the resolution of indirect cost findings reported in State and Federal audits. The regional offices also stated when changes are made to a rate/plan the changes are not explained and are hard to understand. The regional offices receive an indirect cost line item charge when the DDS submits its SSA-4513 Report of Obligations and unless the regional office has a detailed knowledge of a DDS's indirect cost allocation process, they do not know what services are being provided for the DDS by the State.

*Most regional offices do not have the expertise needed to review indirect cost rates/plans.*

### **SSA RELIES ON STATE AND FEDERAL AUDITS TO IDENTIFY PROBLEMS WITH INDIRECT COSTS**

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 executed the approved rate/plan. We agree the State single audits and the OIG's DDS administrative cost audits play an important role in the indirect cost process. However, the State and Federal audit agencies do not provide annual audit coverage of DDS's indirect costs. Therefore, it is critical for SSA to take a more active role in the oversight of indirect costs.

*Federal and State audit agencies do not provide annual audit coverage of DDSs indirect costs.*

- DDSs do not receive detailed audit testing under the single audit process every year. In fact, during State Fiscal Years (SFY) 1999 through 2001, some 28 of the 53 DDSs subject to a single audit received detailed testing in only 1 of the 3 SFYs. The DDSs did not receive detailed testing in the other two SFYs. Even DDSs with the largest SSA expenditures, such as California and Texas, received detailed audit testing for only one of the three SFYs. Furthermore, three DDSs received no audit coverage.<sup>8</sup>
- The OIG's administrative cost audits at DDSs provide audit coverage on a cyclical schedule ranging from 3 to 10 years. Primarily, the audit coverage is based on

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<sup>8</sup> Three DDSs – Vermont, North Dakota, and Guam—did not require detailed audit testing during the SFYs 1999 through 2001 single audits because SSA funding did not meet the established threshold required by OMB Circular A-133 to require testing.

annual administrative expenditures with DDSs having the largest annual administrative expenditures receiving more frequent audit coverage. As such, several years may elapse between OIG audit coverage at select DDSs.

### **SSA IS CONCERNED ABOUT THE COSTS OF AN INDIRECT COST OVERSIGHT PROCESS**

SSA's Office of Disability Determinations expressed concern to us about the resources that would be required to improve its oversight of indirect costs. Given its concerns, we recommend that SSA determine if it is financially feasible to implement an improved indirect cost oversight process. As part of its feasibility study, SSA may want to consider initially focusing its oversight efforts at the SSA regions or DDSs that have the largest indirect cost expenditures. As SSA gains expertise in reviewing indirect cost rates/plans, it could extend its oversight process to other DDSs and/or regions.

- During FY 2002, 5 of SSA's 10 regions (New York, Atlanta, Chicago, Dallas, and San Francisco) had total DDS indirect cost expenditures that exceeded \$15 million (see Appendix D). The indirect costs claimed by DDSs in these 5 SSA regions totaled about \$87 million and accounted for about 80 percent of total DDS indirect costs during FY 2002.
- Fifteen DDSs had indirect cost expenditures that exceeded \$2 million during FY 2002 (see Appendix D). In total, the 15 DDSs claimed indirect costs of about \$80 million, representing approximately 74 percent of total DDS indirect costs during FY 2002.

The results of OIG's administrative cost audits indicate that the resources SSA invested in an improved oversight process would result in a positive return. During the period March 1998 through September 2003, the OIG issued 10 administrative cost audit reports that contained both direct and indirect cost findings (see Appendix C). The reports contained monetary findings of about \$34 million, of which \$16 million related to indirect costs. The OIG audit results show that SSA is most susceptible to inequitable and/or unallowable cost allocations in the area of indirect costs. The GAO Standards for Internal Controls in the Federal Government require federal agencies to establish and maintain internal controls to identify and address areas with the greatest risk of fraud, waste, abuse and mismanagement.<sup>9</sup> Therefore, SSA should have an adequate process in place to oversee indirect costs.

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<sup>9</sup> Standards for Internal Controls in the Federal Government, Page 1 (GAO/AIMD-00-21.3.1 (11/99)).

## **CONCLUSIONS AND RECOMMENDATIONS**

The indirect cost process is a unique discipline that must be learned. We acknowledge the methodologies used to allocate indirect costs to SSA are sometimes very complicated and beyond the general understanding of individuals who have not been trained on the subject. However, the complexities of the indirect cost process do not relieve SSA of its responsibility to ensure that DDSs are reimbursed for only those costs necessary to make disability determinations under its programs.

Indirect cost oversight is becoming even more critical as some states, faced with fiscal pressures, explicitly pursue policies to maximize Federal cost reimbursement. Some states even use consultants and firms that specialize in creating complex cost allocation plans to claim indirect costs. The cost allocation plans are a highly technical accounting and allocation maze that at times lessen Federal agencies' ability to interpret how or to what agency indirect costs are allocated.

Indirect costs represent the lowest expenditure category of the four categories of DDS administrative costs (personnel, medical, indirect, and all-other nonpersonnel costs). However, the indirect cost category is where most monetary findings are identified by the OIG which indicates that SSA is most susceptible to receiving inequitable and/or unallowable cost allocations in the indirect cost category of DDS administrative expenditures. Accordingly, SSA should have a process in place to identify indirect cost charges that do not benefit its programs equitably.

We recommend that SSA establish an indirect cost oversight process that ensures adequate technical expertise to evaluate allocation methodologies and to represent SSA's interests during the indirect cost negotiation process.

## **AGENCY COMMENTS**

In commenting on our draft report, SSA stated that establishing an indirect cost oversight process that ensures adequate technical expertise to evaluate allocation methodologies and to represent SSA's interests 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. SSA also stated that additional oversight of indirect costs should be performed by the OIG not SSA. See Appendix E for the full text of SSA's comments.

## OIG RESPONSE

We recommended that the Agency conduct a feasibility study to determine whether it made economic sense to establish an indirect cost oversight process. SSA disagreed with this recommendation stating that the Agency did “...not believe SSA should assume comprehensive audit responsibility for the indirect cost category.” While we agree with this statement, it is not responsive to our recommendation. We did not recommend, nor would we recommend, that the Agency assume audit responsibility. 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. In addition, the General Accounting Office (GAO) Standards for Internal Controls in the Federal Government require federal agencies to establish and maintain internal controls to identify and address areas with the greatest risk of fraud, waste, abuse, and mismanagement.

Furthermore, the Sarbanes-Oxley Act has prompted renewed focus on internal controls. This act specifically requires management to establish, maintain, and evaluate the internal control structure.<sup>10</sup> The American Institute of Certified Public Accountants and the Public Company Accounting Oversight Board are working to establish new auditing standards to address the increased focus on internal controls. GAO will continue to closely monitor both standard setting bodies and will issue clarifying guidance as necessary on the incorporation of any future standards set by either the American Institute of Certified Public Accountants or the Public Company Accounting Oversight Board.<sup>11</sup> Accordingly, SSA needs to be proactive and ensure adequate internal controls over indirect costs to prevent the identification of a significant internal control deficiency in its financial statements under future standards that may be implemented based on the Sarbanes-Oxley Act.

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<sup>10</sup> Public Law No. 107-204, § 302. PricewaterhouseCoopers’ position paper entitled *Management’s Responsibility for Assessing the Effectiveness of Internal Control Over Financial Reporting Under Section 404 of the Sarbanes-Oxley Act* (December 2003), discusses management’s responsibilities under the Sarbanes-Oxley Act and states that management’s responsibility for assessing internal controls cannot be delegated to the auditor or any other third party.

<sup>11</sup> Government Auditing Standards, pages 3 and 4 (June 2003).

Due to the inherent risk in indirect costs, which will likely total over \$1 billion over a 10-year period,<sup>12</sup> we encourage the Agency to revisit the intent of our recommendation to improve its stewardship and technical oversight in this area.



Patrick P. O'Carroll, Jr.

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<sup>12</sup> For FYs 1998 through 2002, SSA reimbursed DDSs about \$500 million for indirect costs. We estimate that the indirect costs will remain at approximately the same level for FYs 2003 through FY 2007. Accordingly, during this 10-year period SSA will reimburse DDSs about \$1 billion for indirect costs.

# **Appendices**

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[\*\*Appendix A\*\*](#) – Acronyms

[\*\*Appendix B\*\*](#) – Background, Scope and Methodology

[\*\*Appendix C\*\*](#) – Indirect Cost Findings Reported in the Office of the Inspector General  
Administrative Cost Audits

[\*\*Appendix D\*\*](#) – Indirect Costs Claimed by Disability Determination Services for Fiscal  
Years 1998 through 2002

[\*\*Appendix E\*\*](#) – Agency Comments

[\*\*Appendix F\*\*](#) – OIG Contacts and Staff Acknowledgments

## ***Appendix A***

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### **Acronyms**

ASMB	Assistant Secretary for Management and Budget
DDS	Disability Determination Service
DoE	Department of Education
DoL	Department of Labor
FY	Fiscal Year
GAO	General Accounting Office
HHS	Department of Health and Human Services
OIG	Office of the Inspector General
OMB	Office of Management and Budget
Rate/plan	Indirect cost rate and/or cost allocation plan
SFY	State Fiscal Year
SSA	Social Security Administration

# **Background, Scope and Methodology**

## **BACKGROUND**

Indirect costs benefit common activities and cannot be assigned to a specific project or direct cost object. These costs are incurred by each department or agency that carries out Federal awards. There are two major types of costs included in indirect costs—departmental and statewide. 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 the departmental agency and benefit most departments (and their components) in the State.

Indirect costs are allocated to Federal agencies based on an indirect cost rate and/or a cost allocation plan (rate/plan).<sup>1</sup> Cognizant agencies are the Federal agencies that the Office of Management and Budget (OMB) has designated as responsible for reviewing, negotiating, and approving rates/plans.<sup>2</sup> The Social Security Administration's (SSA) regional offices identified three cognizant Federal agencies—Department of Education (DoE), Department of Labor (DoL), and Department of Health and Human Services (HHS)—responsible for reviewing, negotiating, and approving rates/plans for indirect costs charged to Disability Determination Services (DDS). The cognizant agency was developed to simplify the relations between Federal grantees and awarding agencies.

The OMB Circular A-87 *Cost Principles for State, Local and Indian Tribal Governments*, establishes the principles and standards for the cost for Federal awards carried out through grants, and cost-reimbursement contracts.<sup>3</sup> Under this circular, the State governmental unit submits a rate/plan to its cognizant agency. The cognizant agency reviews, negotiates, and approves the rate/plan on a timely basis. The cognizant agency review process is designed to determine if the plan/rate meets Federal requirements. The following table outlines the basic steps in the cognizant agency's review process.

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<sup>1</sup> OMB Circular A-87, Attachment A, § F.

<sup>2</sup> OMB Circular A-87, Attachment A, § B.6.

<sup>3</sup> OMB Circular A-87, 1. Purpose.

#### **Steps in the Cognizant Agency Review Process<sup>4</sup>**

1. Review the submission for materiality, completeness, and reliability of supporting data, including audited financial statements.
2. Acknowledge receipt and request any needed additional information.
3. Review prior negotiation and audit experience; assess prior agreements and applicable conditions.
4. Assess the submissions general reliability and the governmental unit's financial condition.
5. Determine the extent to which coordination with other awarding agencies may be necessary.
6. Review the proposal for accuracy and determine whether it includes all activities and costs of the governmental entity.
7. Determine whether unallowable costs have been excluded and whether allocation methods and billing mechanisms are appropriate and properly designed.
8. Assess what the appropriate rate base (salaries and wages, modified total direct cost, etc.) should be for the resulting indirect cost rate and the extent to which any rate established should be subsequently adjusted.

## **SCOPE AND METHODOLOGY**

To achieve our objective we:

- Reviewed the Assistant Secretary for Management and Budget (ASMB C-10) *Review Guide for State and Local Governments State/Local-Wide Central Service Cost Allocation Plans and Indirect Cost Rates*.
- Reviewed OMB Circular A-87 *Principles for State, Local and Indian Tribal Government*.
- Reviewed OMB Circular A-133 *Audits of States, Local, and Nonprofit Organizations*.
- Reviewed indirect cost findings reported in the Office of the Inspector General's DDS administrative cost audit reports issued during fiscal years 1998 through 2003.
- Obtained and analyzed information on the single audit coverage received by DDSs during State Fiscal Years 1999 through 2001.
- Interviewed staff from the Federal cognizant agencies HHS, DoE, DoL to obtain information on their indirect cost process.
- Issued a questionnaire to the SSA's 10 regional Centers for Disability Programs to collect indirect cost information.
- Responses were received from all 10 regional offices and the information was compiled and analyzed.

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<sup>4</sup> ASMB C-10, Part 6.5.1.

We performed our review in Kansas City, Missouri from May 2003 through September 2003. Our review was performed in accordance with generally accepted government auditing standards.

## **Appendix C**

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# Indirect Cost Findings Reported in the Office of the Inspector General's Administrative Cost Audits

Common Identification Number	Title	Finding	Questioned Costs
A-04-96-54001	Audit of Tennessee's Disability Determination Services Administrative Costs ( <i>Fiscal Years [FY] 1993 through 1995</i> )	The Social Security Administration (SSA) reimbursed the Disability Determination Services (DDS) for indirect costs related to internal audit fees; however, no audit services or benefits were received.	\$21,769
A-05-96-51095	Audit of Administrative Costs at the Michigan Disability Determination Services ( <i>FYs 1993 and 1994</i> )	The DDS claimed indirect costs based on a proposed fixed rate and did not adjust the costs claimed when the final indirect cost rate was approved.	352,233
A-09-97-51006	Audit of Administrative Costs at the California Disability Determination Services ( <i>FYs 1995 and 1996</i> )	The DDS claimed indirect costs for activities that were incorrectly charged to the departmental indirect cost pool.	3,580,673
A-13-98-51007	Audit of Administrative Costs Claimed by the Ohio Rehabilitation Services Commission for Its Bureau of Disability Determination Services ( <i>FYs 1995 through 1997</i> )	The DDS used incorrect indirect cost rates and made computational errors, resulting in unallowable costs.	460,585
A-13-98-81032	Costs Claimed by the State of Illinois on the Social Security Administration's Contact Number 600-95-22673 ( <i>FY 1995</i> )	The DDS claimed indirect costs in excess of the contract specified ceiling rate.	117,602
A-07-02-22003	Audit of the Administrative Costs Claimed by the Kansas Disability Determination Services ( <i>FYs 1998 through 2000</i> )	Indirect costs were not allocated in accordance with the approved cost allocation plan and costs were not allocated to all benefiting components.	4,923,606

Common Identification Number	Title	Finding	Questioned Costs
A-15-00-20053	Administrative Costs Claimed by the New York Disability Determinations Division ( <i>FYs 1998 and 1999</i> )	Indirect costs claimed were not supported by official accounting records.	\$751,238
A-09-02-22022	Administrative Costs Claimed by the California Disability Determination Services ( <i>FYs 1999 and 2000</i> )	The DDS charged indirect costs to SSA that did not benefit its programs.	1,708,097
A-05-02-22019	Administrative Costs Claimed by the Illinois Disability Determination Services ( <i>FYs 1999 through 2001</i> )	The DDS claimed indirect costs based on an estimated rate, but did not adjust the costs claimed when the final rate was approved.	4,034,660
A-09-03-13012	Administrative Costs Claimed by the Hawaii Department of Human Services ( <i>FYs 1999 through 2002</i> )	Indirect costs claimed were not supported by official accounting records.	406,258
<b>Total</b>			<b>\$16,356,721</b>

## ***Appendix D***

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# **Indirect Costs Claimed by Disability Determination Services (DDS) for Fiscal Years (FY) 1998 through 2002<sup>1</sup>**

<b>DDS INDIRECT COSTS BY SOCIAL SECURITY ADMINISTRATION REGION</b>					
<b>DDS</b>	<b>FY 2002</b>	<b>FY 2001</b>	<b>FY 2000</b>	<b>FY 1999</b>	<b>FY 1998</b>
<b>National Total</b>	<b>\$108,585,503</b>	<b>\$99,756,430</b>	<b>\$95,535,950</b>	<b>\$90,956,936</b>	<b>\$94,218,208</b>
<b>Boston Region</b>	<b>\$2,205,026</b>	<b>\$1,935,160</b>	<b>\$1,961,607</b>	<b>\$1,995,017</b>	<b>\$2,015,959</b>
Connecticut	764,463	706,026	715,706	661,597	622,923
Maine	275,895	165,298	249,344	228,553	315,087
Massachusetts	416,662	388,677	429,152	405,370	445,634
New Hampshire	238,262	163,728	154,450	224,638	210,876
Rhode Island	336,000	335,000	251,978	313,833	307,376
Vermont	173,744	176,431	160,977	161,026	114,063
<b>New York Region</b>	<b>\$19,012,302</b>	<b>\$17,227,481</b>	<b>\$13,772,798</b>	<b>\$11,436,123</b>	<b>\$13,178,482</b>
New Jersey	4,294,490	4,412,312	4,102,598	2,817,144	2,293,594
New York	13,475,108	11,385,705	8,353,957	7,348,975	9,650,819
Puerto Rico	1,242,704	1,429,464	1,316,243	1,270,004	1,234,069
<b>Philadelphia Region</b>	<b>\$8,464,317</b>	<b>\$7,672,852</b>	<b>\$7,083,291</b>	<b>\$8,209,188</b>	<b>\$8,323,258</b>
Delaware	635,241	415,998	368,597	468,623	568,555
Washington D.C.	633,417	556,204	606,899	634,995	517,343
Maryland	2,018,410	1,616,846	1,523,057	1,666,866	1,608,421
Pennsylvania	423,578	244,431	310,610	1,146,095	1,015,644
Virginia	3,178,431	3,210,817	2,721,206	3,129,511	3,730,280
West Virginia	1,575,240	1,628,556	1,552,922	1,163,098	883,015
<b>Atlanta Region</b>	<b>\$17,480,352</b>	<b>\$17,854,589</b>	<b>\$17,373,757</b>	<b>\$16,345,651</b>	<b>\$16,172,783</b>
Alabama	2,894,684	4,104,921	3,852,793	1,619,907	2,960,835
Florida	2,741,637	3,570,864	2,272,045	2,189,994	2,040,442
Georgia	2,890,335	1,450,886	2,188,558	2,159,475	2,128,930
Kentucky	1,930,624	2,265,900	2,042,335	1,882,176	1,815,519
Mississippi	1,150,486	1,109,146	995,889	2,099,539	1,986,622
North Carolina	1,468,036	1,266,273	2,049,156	2,671,058	1,876,210
South Carolina	1,867,329	1,723,971	1,554,908	1,444,410	1,256,582
Tennessee	2,537,221	2,362,628	2,418,073	2,279,092	2,107,643
<b>Chicago Region</b>	<b>\$16,295,648</b>	<b>\$16,603,279</b>	<b>\$17,033,365</b>	<b>\$15,804,791</b>	<b>\$15,873,538</b>
Illinois	2,518,921	3,785,784	3,599,926	3,669,133	3,632,427
Indiana	1,322,986	1,259,555	1,316,997	1,582,056	1,428,546
Michigan	2,994,774	2,446,352	2,784,339	2,620,680	2,577,482
Minnesota	920,693	1,300,335	1,208,716	887,632	940,684
Ohio	8,138,496	7,442,298	7,776,864	6,660,978	6,816,624
Wisconsin	399,778	368,955	346,523	384,312	477,775
<b>Dallas Region</b>	<b>\$15,350,059</b>	<b>\$10,550,249</b>	<b>\$11,426,995</b>	<b>\$12,607,797</b>	<b>\$12,015,038</b>

<sup>1</sup> The indirect cost information in this appendix was provided by SSA's Office of Disability Determinations. We did not verify the accuracy of the indirect cost information. We found that the information contained some large variances in the DDS indirect costs amounts between FYs. The Office of Disability Determinations was able to explain some of the variances, but not all. Given the unresolved variances, this is the most reliable data Office of Disability Determinations could provide.

<b>DDS INDIRECT COSTS BY SOCIAL SECURITY ADMINISTRATION REGION</b>					
<b>DDS</b>	<b>FY 2002</b>	<b>FY 2001</b>	<b>FY 2000</b>	<b>FY 1999</b>	<b>FY 1998</b>
Arkansas	98,696	98,482	85,179	72,608	103,194
Louisiana	2,369,014	2,441,560	2,363,164	2,695,967	1,906,537
New Mexico	999,783	922,224	880,466	884,086	858,353
Oklahoma	988,009	788,909	55,770	0	75,219
Texas	10,894,557	6,299,074	8,042,416	8,955,136	9,071,735
<b>Kansas City Region</b>	<b>\$5,259,658</b>	<b>\$4,705,375</b>	<b>\$4,596,639</b>	<b>\$5,206,867</b>	<b>\$4,320,658</b>
Iowa	870,090	762,455	687,055	692,831	458,078
Kansas	2,505,900	1,554,590	1,457,011	1,391,372	1,490,069
Missouri	1,544,774	2,102,537	2,193,204	2,882,853	2,148,710
Nebraska	338,894	285,793	259,369	239,811	223,801
<b>Denver Region</b>	<b>\$2,329,077</b>	<b>\$2,350,696</b>	<b>\$2,509,423</b>	<b>\$2,363,895</b>	<b>\$1,924,496</b>
Colorado	1,100,006	1,251,126	1,430,360	1,300,328	982,748
Montana	240,198	193,053	143,533	164,212	100,842
North Dakota	173,801	133,143	131,857	96,954	113,002
South Dakota	231,561	215,371	207,099	209,455	236,686
Utah	455,513	474,748	480,852	464,904	420,078
Wyoming	127,998	83,255	115,722	128,042	71,140
<b>San Francisco Region</b>	<b>\$18,713,832</b>	<b>\$17,682,232</b>	<b>\$16,804,159</b>	<b>\$14,554,670</b>	<b>\$17,745,244</b>
Arizona	1,289,844	1,147,899	1,134,943	1,171,282	1,174,862
California	16,522,597	15,600,535	14,740,181	12,335,557	15,692,269
Guam	10,992	13,620	6,883	2,302	2,870
Hawaii	367,487	413,410	450,450	391,496	332,979
Nevada	522,912	506,768	471,702	654,033	542,264
<b>Seattle Region</b>	<b>\$3,475,232</b>	<b>\$3,174,517</b>	<b>\$2,973,916</b>	<b>\$2,432,937</b>	<b>\$2,648,752</b>
Alaska	412,736	389,726	369,598	175,718	390,744
Idaho	45,222	77,470	13,131	0	20,094
Oregon	1,910,629	1,802,693	1,734,957	1,548,565	1,576,642
Washington	1,106,645	904,628	856,230	708,654	661,272

INDIRECT COSTS BY DDS EXPENDITURE AMOUNT			
DDS	FY 2002	DDS	FY 2002
California	\$16,522,597	New Mexico	\$999,783
New York	13,475,108	Oklahoma	988,009
Texas	10,894,557	Minnesota	920,693
Ohio	8,138,496	Iowa	870,090
New Jersey	4,294,490	Connecticut	764,463
Virginia	3,178,431	Delaware	635,241
Michigan	2,994,774	Washington D.C.	633,417
Alabama	2,894,684	Nevada	522,912
Georgia	2,890,335	Utah	455,513
Florida	2,741,637	Pennsylvania	423,578
Tennessee	2,537,221	Massachusetts	416,662
Illinois	2,518,921	Alaska	412,736
Kansas	2,505,900	Wisconsin	399,778
Louisiana	2,369,014	Hawaii	367,487
Maryland	2,018,410	Nebraska	338,894
Kentucky	1,930,624	Rhode Island	336,000
Oregon	1,910,629	Maine	275,895
South Carolina	1,867,329	Montana	240,198
West Virginia	1,575,240	New Hampshire	238,262
Missouri	1,544,774	South Dakota	231,561
North Carolina	1,468,036	North Dakota	173,801
Indiana	1,322,986	Vermont	173,744
Arizona	1,289,844	Wyoming	127,998
Puerto Rico	1,242,704	Arkansas	98,696
Mississippi	1,150,486	Idaho	45,222
Washington	1,106,645	Guam	10,992
Colorado	1,100,006	Total	\$108,585,503

## *Appendix E*

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### **Agency Comments**



## SOCIAL SECURITY

MEMORANDUM

33119-24-1070

Date: February 20, 2004 Refer To: S1J-3

To: James G. Huse, Jr.  
Inspector General

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

Subject: Office of the Inspector General (OIG) Draft Report, "Review of Social Security Administration's  
Oversight of Indirect Costs Claimed by State Disability Determination Services"  
(A-07-03-23086)--INFORMATION

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

Please let us know if we can be of further assistance. Staff questions can be referred to Janet Carbonara at extension 53568.

Attachment:  
SSA Response

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG)**  
**DRAFT REPORT, “REVIEW OF SOCIAL SECURITY**  
**ADMINISTRATION’S OVERSIGHT OF INDIRECT COST CLAIMED BY**  
**STATE DISABILITY DETERMINATION SERVICES” A-07-03-23086**

Below are our comments on the report recommendation.

**Recommendation 1**

The Social Security Administration (SSA) should determine if it is financially feasible to establish an indirect cost oversight process that ensures adequate technical expertise to evaluate allocation methodologies and to represent SSA’s interests during the indirect cost negotiation process. Based on the results of this feasibility study, SSA should take appropriate action to improve its oversight of indirect costs.

**Comment**

We disagree with conducting a feasibility study, as we do not believe SSA should assume comprehensive audit responsibility for the indirect cost category. Ensuring that costs are properly funneled through the established allocation plan is where SSA’s focus and responsibility reside. The Office of Management and Budget (OMB) Circular A-87, Attachment A.B.6 defines a cognizant Federal agency as *“the Federal agency responsible for reviewing, negotiating and approving cost allocation plans or indirect cost proposals developed under this circular, on behalf of all Federal agencies.”* OMB Circular A-87 further gives the title of cognizant agency, if not defined by OMB, to the agency that provides the most funding to the state. The role of the cognizant agency is to ensure that the State’s indirect costs are distributed to all benefiting State agencies equitably and that the costs are allowable, reasonable and allocable to Federal awards. According to the Health and Human Service (HHS) indirect cost allocation plan review guide, the Division of Cost Allocation (DCA) compares new submissions with prior negotiations, audit findings, and the cost principles in OMB’s circular A-87. They reconcile the proposal to the State’s financial statements and at a minimum conduct a 3-year trend analysis of the cost pools and allocation bases. The DCA determines whether the allocating methods used are appropriate and accurate. Furthermore, the DCA is familiar with the organizational structures of the States and notes any changes from year to year.

The DCA practices stewardship in protecting the interest of the Federal awards. Based on their years of experience, documentation and analysis, they are in a good position to review and negotiate the indirect cost allocation plans.

We agree that a vast majority of our Regional Offices (RO) have indicated they do not have the expertise needed to adequately review cost allocation plan (CAP) rates and/or monitor the resolution of indirect cost findings reported in State and Federal audits. Organizationally, there is currently no RO component that would have the expertise to handle such administrative details. 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. However, we are in favor of obtaining additional training for RO staff to more skillfully interact with cognizant Federal agencies.

The RO has demonstrated its oversight in requesting specific audits of indirect costs when they detect a problem. An example is noted in Appendix C of this report, where as a result of effective SSA oversight, indirect costs were audited as the result of a RO request. During the audit OIG found \$4.9 million in questioned costs (Kansas City), which was the largest monetary finding cited in this report. It should be noted that the findings in Appendix C are not related to the negotiation process, but rather the implementation of established plans (e.g., incorrect rates used, computational errors, unallowable charges, etc.). Those are the type of areas found through an audit.

Another State (Illinois) cited in Appendix C was a result of the Agency's long-established process for adjusting indirect cost charges when final indirect rates are determined. This process, which strictly adheres to regulatory policy, allows indirect costs to be claimed using an agreed upon "provisional" rate (generally, this is the last final/approved rate). This is done in the normal course of SSA/DDS procedures and not as the result of the audit.

We do agree that oversight activities are needed during the State's implementation of the plans, which we firmly believe lies with the audit process. Therefore, it would be more effective to expand the OIG role by having them provide support to SSA in determining the accuracy of indirect costs. OIG staff is better positioned to perform substantive reviews of applicable agreements. RO staff would subsequently act on any OIG findings including those in the area of indirect costs. If significant value is found in annual OIG audits, then OIG should perform those audits as part of their normal oversight of SSA's fiscal operations.

## ***Appendix F***

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# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Mark Bailey, Director (816) 936-5591

Shannon Agee, Audit Manager (816) 936-5590

### ***Acknowledgments***

In addition to those named above:

Kenneth Bennett, IT Specialist

Karis Gaukel, Auditor

Cheryl Robinson, Writer-Editor

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## **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.