
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED
BY THE MISSOURI DISABILITY
DETERMINATION SERVICES**

July 2007

A-07-06-16098

AUDIT REPORT



Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, 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

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



SOCIAL SECURITY

MEMORANDUM

Date: July 12, 2007

Refer To:

To: Michael W. Grochowski
Regional Commissioner
Kansas City

From: Inspector General

Subject: Administrative Costs Claimed by the Missouri Disability Determination Services
(A-07-06-16098)

OBJECTIVE

Our objectives were to evaluate the Missouri Disability Determination Services (MO-DDS) internal controls over the accounting and reporting of administrative costs, determine whether costs claimed by the MO-DDS were allowable and properly allocated and funds were properly drawn, and assess limited areas of the general security control environment. Our audit included the administrative costs claimed by the MO-DDS during Fiscal Years (FY) 2004 and 2005.

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, and/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 DI and SSI are performed by Disability Determination Services (DDS) in each State, Puerto Rico and the District of Columbia. Such determinations are required to be performed in accordance with Federal law and underlying regulations.¹ 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

¹ 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

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 reported 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 (ASAP) system to pay for program expenditures. Funds drawn down must comply with Federal regulations² and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act of 1990.³

An advance or reimbursement for costs under the program must comply with the Office of Management and Budget's Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the FY, each DDS is required to submit a *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) to account for program disbursements and unliquidated obligations.⁴ The SSA-4513 reports expenditures and unliquidated obligations for personnel service costs, medical costs, indirect costs, and all other nonpersonnel costs.⁵

The MO-DDS is decentralized with six district offices located throughout the State and a central office located in Jefferson City, Missouri.⁶ The Missouri Division of Vocational Rehabilitation is the MO-DDS' parent agency.

RESULTS OF REVIEW

Generally, the MO-DDS had effective controls over the accounting and reporting of administrative costs and with the exception of one communication expense, the costs it claimed during our audit were allowable and properly allocated. We also found that the MO-DDS' general security controls were effective except the DDS does not have a security plan for the location that houses its AS/400 computer system. Lastly, improvements are needed in inventory maintenance.

² 31 C.F.R. § 205.1 et seq.

³ Pub. L. No. 101-453, 104 Stat. 1058, in part amending 31 U.S.C. §§ 3335, 6501 and 6503.

⁴ SSA, Program Operations Manual System (POMS), DI 39506.201 and 202. POMS, DI 39506.200 B.4 provides, in part, that "Unliquidated obligations represent obligations for which payment has not yet been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received."

⁵ SSA, POMS, DI 39506.202.

⁶ The MO-DDS' district offices are located in Kansas City, St. Louis North, St. Louis South, Cape Girardeau, Springfield and Jefferson City.

Communication Expense

An invoice for communication expense was paid in excess of the correct amount by \$4,564. This occurred because parent agency staff incorrectly calculated the amount of the invoice that was to be allocated to the MO-DDS. The parent agency agreed the expense allocation on this invoice was incorrectly calculated. Federal regulations provide, in part, that SSA "...will give the State funds...for necessary costs in making disability determinations...."⁷ Since the expense was not for the benefit of SSA's disability programs it was not necessary. We recommend SSA instruct the MO-DDS to refund \$4,564 for the unallowable communication expense.

Security Plan

The MO-DDS does not have a security plan for the location that houses the AS/400 computer system.⁸ The AS/400 computer system is located in a room within a Missouri State office building in Jefferson City, Missouri. There are no MO-DDS or parent agency staff located in this building. The AS/400 computer system supports MO-DDS operations and contains sensitive information.

The MO-DDS' district offices and central office connect to the AS/400 computer system in making disability determinations for SSA; therefore, a disaster affecting this computer room would impact all MO-DDS operations. As a result of not having a security plan, there is a risk that critical business processes are not protected or will not recover timely in the event of a disaster. A delay in creating a security plan could result in a longer recovery period following a catastrophic event.

SSA instructions state, "Each DDS must establish and maintain a written DDS Security Plan."⁹ As a result of our audit the MO-DDS stated it will work with the parent agency to create a written security plan for the centralized computer system. We recommend SSA assist the MO-DDS in the timely creation of a security plan for their centralized computer system room.

Inventory

The MO-DDS did not maintain adequate equipment inventory records. We determined that the inventory records were not accurate because various equipment was not at the recorded location or not recorded in the inventory. For example, 23 items selected for verification of existence at the MO-DDS' central office were not found at the recorded location and we identified other equipment that should have been on the inventory listing. The failure to maintain complete inventory records hinders the detection of stolen or misplaced equipment. According to SSA instructions, "The State is responsible for maintenance and inventory of all equipment acquired whether

⁷ 20 C.F.R. §§ 404.1626 and 416.1026.

⁸ The MO-DDS has security plans for their central and district offices.

⁹ SSA, POMS, DI 39566.120.

purchased through SSA or the State.”¹⁰ The parent agency informed us that the inaccuracies in the current inventory system occurred because inventory data from the previous inventory system was transferred to the new system without verifying the accuracy and completeness of the data.

The MO-DDS informed us that it has taken action to update its inventory records. Specifically, a physical inventory of equipment at each of the MO-DDS’ central and district offices has been completed including a reconciliation to State inventory records. We did not independently verify the completeness or accuracy of the MO-DDS’ changes to its inventory records since the changes occurred after the end of our audit fieldwork. Therefore, we recommend SSA verify the MO-DDS’ new inventory system is in compliance with SSA instructions.¹¹

CONCLUSION AND RECOMMENDATIONS

Generally, the MO-DDS had effective controls over the accounting and reporting of administrative costs and with the exception of one communication expense, the costs it claimed during our audit were allowable and properly allocated. We also found the MO-DDS’ general security controls were effective except the DDS does not have a security plan for the location that houses its AS/400 computer system. Lastly, improvements are needed in inventory maintenance.

We recommend the SSA Regional Commissioner:

1. Instruct the MO-DDS to refund \$4,564 for the unallowable communication expense.
2. Assist the MO-DDS in the timely creation of a security plan for the location that houses the AS/400 computer system.
3. Verify the MO-DDS’ new inventory system is in compliance with SSA instructions.

¹⁰ SSA, POMS, DI 39530.020.

¹¹ *Id.*

AGENCY COMMENTS

In commenting on our draft report, SSA and the MO-DDS agreed with our recommendations. See Appendices C and D respectively, for the full text of SSA's and MO-DDS' comments.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr."

Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Agency Comments

[APPENDIX D](#) – State Agency Comments

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

Acronyms

Act	Social Security Act
ASAP	Automated Standard Application for Payments
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
MO-DDS	Missouri Disability Determination Services
MO-VR	Missouri Division of Vocational Rehabilitation
POMS	Program Operations Manual System
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 the Treasury
U.S.C.	United States Code

Scope and Methodology

SCOPE

To achieve our objective, we:

- Reviewed applicable Federal laws and regulations, pertinent parts of the Social Security Administration's (SSA) Program Operations Manual System and other criteria relevant to administrative costs claimed by the Missouri Disability Determination Services (MO-DDS), and the draw down of SSA program appropriations.
- Interviewed staff and officials at the Missouri Division of Vocational Rehabilitation (MO-VR) and the MO-DDS.
- Reviewed State policies and procedures related to personnel, medical services, and all other nonpersonnel costs.
- Evaluated and tested internal controls regarding accounting, financial reporting, and cash management activities.
- Reconciled State accounting records to the administrative costs reported by the MO-DDS on the *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) for Fiscal Years (FY) 2004 through 2005.
- Examined specific administrative expenditures (personnel, medical services, and all other nonpersonnel costs) incurred and claimed by the MO-DDS for FYs 2004 and 2005 on the SSA-4513. We used statistical sampling to select expenditures to test for support of the medical service and all other nonpersonnel costs as discussed in the following Methodology section of this Appendix.
- Examined the indirect costs claimed by the MO-DDS for FYs 2004 through 2005.
- Compared the amount of SSA funds drawn for support of program operations to the expenditures reported on the SSA-4513.
- Determined whether selected funds from cancelled warrants were properly returned to SSA.
- Determined if unliquidated obligations were properly supported.
- Reviewed MO-DDS' general security controls.

We determined that the data provided by MO-VR and MO-DDS used in our audit was sufficiently reliable to achieve our audit objectives. We assessed the reliability of the data by reconciling it with the costs claimed on the SSA-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We performed work at the MO-VR, MO-DDS, the Kansas City, Missouri and Chicago, Illinois Offices of Audit. We conducted fieldwork from June 2006 through April 2007. The audit was conducted in accordance with generally accepted government auditing standards.

METHODOLOGY

SAMPLING METHODOLOGY

The sampling methodology encompassed the four general areas of costs reported on the SSA-4513 (1) personnel, (2) medical, (3) indirect, and (4) all other nonpersonnel costs. We obtained a data extract of all costs and the associated invoices for FYs 2004 through 2005 for use in statistical sampling. This was obtained from the accounting systems used in the preparation of the SSA-4513.

Personnel Costs

We randomly selected 1 pay period in the most recent year under review. We then selected a random sample of 50 regular employees for review and testing of the payroll records.

For medical consultant costs, we also selected 1 pay period in the most recent year under review. We then selected a random sample of 50 medical consultants for review and testing of the payroll records.

Medical Costs

We sampled 100 items (50 items from each FY) using a stratified random sample of medical cost based on the proportion of medical evidence of record and consultative examination costs to the total medical costs claimed.

Indirect Costs

MO-DDS indirect costs are computed by applying a federally approved rate to a cost base.¹² This methodology was approved by the United States Department of Education, which is the Federal agency designated to negotiate and approve the indirect cost rate.

¹² Total direct cost less items of equipment, alterations and renovations, flow through funds and the portion of each sub-award in excess of \$25,000 regardless of the period covered by the sub-award.

On the final SSA-4513s, the MO-DDS claimed indirect costs of \$1,621,882 for FY 2004 and \$1,574,109 for FY 2005. We reviewed the FY 2004 and 2005 indirect cost calculations to ensure the correct rate was applied.

All Other Nonpersonnel Costs

We sampled 102 items (50 expenditures from FY 2004 and 52 from FY 2005) using a stratified random sample. The random sample was based on the proportion of costs in each of the cost categories to the total costs claimed.

Appendix C

Agency Comments

To: Inspector General

From: Regional Commissioner Kansas City Region

Subject: Administrative Costs Claimed by the Missouri Disability Determination Services (A-07-06-16098)- Response

We appreciate the opportunity to provide input on the draft report of the administrative audit for fiscal years 2004 and 2005 conducted at the Missouri Disability Determination Services (DDS). The region agrees with the findings and the recommendations outlined in the draft report. The findings illustrate that the Missouri DDS has very good management internal controls in place to ensure proper use of funds. However, the auditors identified three areas that required corrective action or improved processes. Our response to the audit recommendations is outlined below.

Recommendations

1. Instruct the MO-DDS to refund \$4,564 for the unallowable communication expense.

The Kansas City Region agrees to instruct the Missouri DDS to refund \$4,564.00. We will request the refund for the unallowable expense by July 16, 2007 with a response due by September 30, 2007.

2. Assist the MO-DDS in the timely creation of a security plan for the location that houses the AS/400 computer system.

The Kansas City Regional Office will work with the Missouri DDS and the State of Missouri to prepare a security plan for the AS/400 computer system, with a tentative completion date of June 30, 2008. Since the facility that houses the AS/400 also accommodates other state systems, we will work closely with state officials to ensure our plan effectively protects SSA's system, and does not create obstacles for the other state agencies using the same facility. Coordinating the plan development and implementation will likely take longer than if we were just coordinating with a DDS. The DDS has already started discussions with state officials to prepare a plan.

3. Verify the MO-DDS' new inventory system is in compliance with SSA instructions.

The Kansas City Regional Office will verify that the inventory control is in compliance with SSA instructions. The DDS has created a spreadsheet to record, update, and monitor all DDS equipment statewide. The DDS is currently updating the inventory list and the regional office will verify compliance by September 30, 2007.

The auditors from the Kansas City Region do an excellent job of communicating their needs and providing feedback during the course of the audit process and I appreciate their responsiveness to the DDS and the regional office. If you have questions, please contact me at 816-936-5700. If your staff needs additional assistance or information, they may contact Janet Shivers, Disability Program Administrator for Missouri, at 816-936-5680.

/s/

Michael W. Gochowski

Appendix D

State Agency Comments

Comments to Audit Report A – 07 - 06 -16098

Administrative Costs Claimed by the Missouri Disability Determinations Section

Communications Expense

The MO – DDS has been credited in the amount of \$4,564 for the un-allowed communication expense. Documentation of the transaction is attached. Procedures are in place to assure expenses are charged to the correct grant.

Security Plan

The AS400 used in the operation of the DDS program is housed in the parent agency's computer room within a State office building. This location has more adequate physical security measures than the Central office and provides a means to produce back up files. These back up files are rotated to the DDS Central office off-site on a schedule to assure continuity of operations should a catastrophic event occur. A security plan for the location housing the AS/400 computer system is being coordinated through the Office of Administration. Expect completion of the security plan within the next 60 days. A copy of the plan will be made available upon its execution.

Inventory

A physical inventory of equipment at each of the MO – DDS' central and district offices is complete. An accurate account of state inventory includes: faxes, copiers, and postage equipment. Reconciliation of state inventory records has also been updated to reflect current inventory. In addition to the state inventory, a physical inventory of all federal equipment including computer CPU's/monitors, printers, IVT equipment etc. is also maintained. Our state/federal inventory records are consistent with SSA guidelines identified in the POMS (program manual). Procedures are in place to keep inventory records current. The SSA Regional DPA has verified current inventory records during a recent on-site visit.

Dr. Jeanne Loyd, Assistant Commissioner
Department of Elementary and Secondary Education
Division of Vocational Rehabilitation

Appendix E

OIG Contacts and Staff Acknowledgments

OIG Contacts

Mark Bailey, Director, Kansas City Audit Division, (816) 936-5591

Ken Bennett, Information Technology Specialist, (816) 936-5593

Acknowledgments

In addition to those named above:

Doug Kelly, Auditor-in-Charge

Sherman Doss, Auditor

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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.

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