
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**Administrative Costs Claimed by
the Delaware Disability
Determination Services**

August 2005

A-13-05-15011

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: August 19, 2005

Refer To:

To: Laurie Watkins
Regional Commissioner
Philadelphia

From: Inspector General

Subject: Administrative Costs Claimed by the Delaware Disability Determination Services
(A-13-05-15011)

OBJECTIVE

Our objectives were to (1) evaluate the Delaware Disability Determination Services' (DE-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed for Federal Fiscal Years (FY) 2001 through 2003 were allowable and properly allocated and funds were properly drawn, and (3) assess the general security controls environment.

BACKGROUND

Disability Determination Services (DDS) in each State or other responsible jurisdiction perform disability determinations under both the Disability Insurance and Supplemental Security Income programs. 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 adequate evidence is available to support its determinations.²

The Social Security Administration (SSA) reimburses the DDS for 100 percent of allowable program expenditures up to the limit of its funding authority. The DDS draws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system in accordance with Federal regulations³ and an intergovernmental agreement entered into by Treasury and the State of Delaware under the Cash Management Improvement Act.⁴

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

² 20 C.F.R. §§ 404.1613(a), 404.1614(a), 416.1013(a) and 416.1014(a).

³ 31 C.F.R. 205.

⁴ Pub. L. No. 101-453, 31 U.S.C § 6501.

DE-DDS, which is located in New Castle, Delaware, is a component of the Delaware Department of Labor (DE-DOL), Division of Vocational Rehabilitation.⁵ The Division of Vocational Rehabilitation accounts for the DE-DDS' disbursements, completes and submits the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) to SSA, and prepares requests to transfer cash from Treasury to the State Treasurer. The State's indirect costs for the DE-DDS are determined based on rates negotiated and approved by the Department of Labor. As of July 7, 2004, DE-DDS reported program disbursements and unliquidated obligations on Form SSA 4513, as shown in Table 1. There were no unliquidated obligations for FYs 2001 through 2003. See Appendix B for our Scope and Methodology.

**Table 1: DE-DDS Report of Disbursements and Unliquidated Obligations
FYs 2001 Through 2003**

REPORTING ITEM	FY 2001	FY 2002	FY 2003
Disbursements			
Personnel	\$1,665,754	\$1,749,575	\$1,859,097
Medical	824,597	947,099	892,026
Indirect Costs	397,458	556,270	626,167
Other	893,481	945,216	941,497
Total Disbursements	\$3,781,290	\$4,198,160	\$4,318,787
Unliquidated Obligations	\$0	\$0	\$0

RESULTS OF REVIEW

Generally, except for indirect costs, DE-DDS had effective internal controls over the accounting and reporting of administrative costs. Also, most costs claimed during our audit period were allowable and properly allocated and funds were properly drawn. Finally, the general security controls we reviewed were effective. However, we identified some discrepancies where action needs to be taken. Discrepancies were found in the indirect and other cost categories.

⁵ DE-DDS moved from Wilmington, Delaware, to New Castle, Delaware, in 2005.

ADMINISTRATIVE SERVICES AND TECHICAL SUPPORT COSTS SHOULD BE INCLUDED IN AN APPROVED ALLOCATION PLAN

During our audit, the basis for allocating DE-DOL administrative services and technical support (AS&T) costs to the DE-DDS had not been formally approved by the Department of Labor. These costs were reported as direct costs⁶ on the SSA-4513. The AS&T costs totaled approximately \$296,879 for the 3 FYs we audited (\$92,224 in FY 2001; \$100,228 in FY 2002; and \$104,427 in FY 2003).

According to SSA policy,⁷ the parent agency's method of charging its indirect costs must be reviewed and approved by the Department of Labor, Office of Cost Determination, or other designated Federal department. The parent agency should identify services that benefit both the SSA disability program and other programs it administers and develop indirect cost proposals to distribute the costs of such services to the programs involved. The parent agency must submit its own indirect cost proposal to recover its own indirect costs. In addition to SSA policy, a cost allocation plan for distributing indirect costs should be prepared in accordance with policies and procedures contained in Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

A DE-DOL official provided us with a copy of a departmental-level cost allocation plan for the AS&T costs that were submitted to the Department of Labor for approval in 1995. However, DE-DOL could not provide us a copy of the approved plan. We were provided with a document showing the Department of Labor approved the departmental-level methodology used to allocate the AS&T costs on May 27, 2005.

DE-DDS benefited from the AS&T services. The type of services included in AS&T costs were appropriate for reimbursement and therefore allowable. We recalculated the AS&T costs. Although we were able to recalculate costs using DE-DDS' methodology, the Department of Labor had not approved the methodology when we concluded our audit.

Delaware officials acknowledged the AS&T costs were not included in the State-wide Indirect Cost Allocation Plan. However, an official of the Department of Labor, Office of Cost Determination, indicated the AS&T costs were indirect costs that should have been included in an approved State-wide Indirect Cost Allocation Plan. We agree and believe the AS&T costs should be reported as indirect costs on the SSA-4513.

⁶ Reported under the All Other Nonpersonnel Costs category as miscellaneous costs.

⁷ Program Operations Manual System, DI 39506.300.

UNSUPPORTED COSTS

We found unsupported costs of \$12,200 (less than 1 percent of the total amount of disbursements)—\$11,100 for telephone charges and \$1,100 for off-site storage rental fees.

- The DE-DDS was unable to provide adequate documentation supporting the basis for the allocation of telephone costs from the parent agency for our audit period.
- The DE-DDS used an off-site storage location for the first 5 months of FY 2001. The parent agency allocated storage costs to the DE-DDS based on square footage used.

DE-DDS officials acknowledged there was no documentation to support the monthly charges from the parent agency.

After the June 28, 2005 issuance of our draft report summarizing the results of our audit, DE-DDS provided us support for \$11,100 in telephone charges. However, we believe the balance of \$1,100 of unsupported costs for off-site storage rental fees remains undocumented.

UNALLOWABLE COSTS AND COMPUTATION ERRORS

During our audit, we found the following:

- The lessor charged DE-DDS \$1,000 for intermittent weekend energy use. However, the lease states the lessor is responsible for energy use. The lease agreement does not allow the lessor to charge for weekend energy use. Therefore, this cost was unallowable.
- The lessor charged \$200 for service calls for such things as resetting tripped breakers. The lease states the lessor is responsible for the expenses for building services. Therefore, this was an unallowable cost.
- We found six instances where DE-DDS' computation of indirect costs was incorrect. The computation errors resulted in an underpayment of \$1,281.
- DE-DDS made a \$200 overpayment to a medical consultant as a result of a computation error.

As a result of these errors, there was a net overpayment of \$119. We discussed these discrepancies with DE-DDS officials. The officials stated they would take corrective action to address unallowable costs and errors.

NONCOMPLIANCE WITH STATE POLICY

Two temporary employees worked for a vendor that had no contract with the State of Delaware during our audit period. Title 29, chapter 6911, of the Delaware Code indicates that nonprofessional services shall be procured through State-wide contracts. The State of Delaware awarded a State-wide contract that listed approved vendors for the period April 6, 2003 through April 5, 2005. The vendor that employed these temporary employees was not on the approved vendor list. DE-DDS staff informed us that the temporary employees were “grandfathered-in” to the contract. However, there was insufficient documentation to support this statement. In addition, we found the DE-DDS paid the vendor, not listed in the contract, about \$3.00 an hour more per employee than the maximum allowed under the State-wide contract.

CONCLUSION AND RECOMMENDATIONS

Generally, except for indirect costs, DE-DDS had effective internal controls over the accounting and reporting of administrative costs. Also, most costs claimed during our audit period were allowable and properly allocated and funds were properly drawn. Finally, the general security controls we reviewed were effective. However, we identified some discrepancies where action needs to be taken.

We recommend SSA:

1. Instruct the DE-DOL and DE-DDS to include AS&T costs in the State-wide Indirect Cost Allocation Plan and report the AS&T costs as indirect costs on the SSA-4513.
2. Work with DE-DOL and DE-DDS to determine the validity of the unsupported costs of \$1,100 and refund any disbursements for which support could not be provided.
3. Instruct the DE-DOL and DE-DDS to provide adequate documentation to support the action to grandfather-in temporary employees.

AGENCY COMMENTS

SSA agreed with our recommendations. In response to Recommendation 1, the Agency stated DE-DOL should amend the State-wide cost allocation plan for the state FY covering the period July 1, 2005 through June 30, 2006 to incorporate the AS&T charges. SSA also agreed that the AS&T charges should be reported as indirect costs on the SSA-4513 and will instruct the DE-DDS to reclassify these costs as indirect costs. Regarding Recommendation 2, SSA stated that DE-DOL provided us with the supporting documentation for the telephone charges of \$11,100 after we released our draft audit report. This portion of the finding has been resolved. The balance of unsupported costs of \$1,100 for off-site storage rental fees remains undocumented and should be refunded to SSA. Concerning Recommendation 3, the Agency recognized

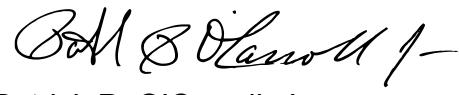
that DE-DOL's response did not adequately address the issue. SSA will recommend to DE-DOL to alter the State of Delaware's procurement policy to add appropriate language regarding grandfathering provisions. See Appendix C for the full text of the Agency's comments.

STATE AGENCY COMMENTS

Generally, DE-DOL disagreed with our recommendations. In response to Recommendation 1, DE-DOL stated the AS&T charges complied with Office of Management and Budget Circular A-87 and had been approved by the Department of Labor's Regional Cost Negotiator. Regarding Recommendation 2, DE-DOL stated it provided supporting documentation for the \$11,100 in telephone charges. DE-DOL agreed it could not locate supporting documentation for \$1,100 in off-site storage bills. Concerning Recommendation 3, DE-DOL stated it provided us documentation in the form of confirmation in writing from the State Procurement Officer. See Appendix D for the full text of DE-DOL's comments.

OIG RESPONSE

We remain committed to our recommendations. Concerning Recommendation 1, the Department of Labor's Regional Cost Negotiator informed us that DE-DOL should amend the State-wide cost allocation plan for the State FY covering the period July 1, 2005 through June 30, 2006, to incorporate the AS&T charges. We also believe AS&T charges should be reported as indirect costs on the SSA-4513. Regarding Recommendation 2, DE-DDS provided us support for \$11,100 in telephone charges on July 20, 2005, after we issued our draft report on June 28, 2005. This additional information resolved a significant amount of the unsupported costs. However, we also believe the balance of unsupported costs of \$1,100 for off-site storage rental fees remains undocumented and should be refunded to SSA. Concerning Recommendation 3, the documentation DE-DDS provided to support the action to grandfather-in temporary employees was a January 20, 2005, email message from the State Procurement Officer stating the employees were grandfathered-in. We believe the email message without further documentation is not adequate to support the action to grandfather-in temporary employees. No further information was provided after we made several attempts to obtain additional supporting documentation.



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

Appendix A

Acronyms

C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DE-DDS	Delaware Disability Determination Services
DE-DOL	Delaware Department of Labor
FY	Fiscal Year
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSA-4513	State Agency Report of Obligations for SSA Disability Programs
Treasury	Department of the Treasury
U.S.C.	United States Code

Scope and Methodology

SCOPE

To achieve our objectives, we:

- Reviewed applicable Federal law and regulations, pertinent parts of the Social Security Administration's (SSA) Program Operations Manual System and other criteria relevant to administrative costs claimed by Delaware Disability Determination Services (DE-DDS) and drawdowns of SSA program grant funds.
- Interviewed staff and officials at DE-DDS; Delaware Department of Labor, Division of Vocational Rehabilitation; and SSA's Philadelphia Regional Office.
- 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 DE-DDS on the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) for Federal Fiscal Years (FY) 2001 through 2003.
- Reviewed the administrative costs DE-DDS reported on its Forms SSA 4513 for FYs 2001 (\$3,781,290), 2002 (\$4,198,160), and 2003 (\$4,318,787).
- Examined certain administrative expenditures (personnel, medical service, and all other nonpersonnel costs) incurred and claimed by DE-DDS for FYs 2001 through 2003 on the Form SSA-4513. We used statistical sampling to select expenditures to test for support of the medical service and all other nonpersonnel costs.
- Examined the indirect costs claimed by DE-DDS for FYs 2001 through 2003.
- Discussed indirect costs with the cognizant agency for Delaware, the Department of Labor.
- Compared the amount of SSA funds drawn to support program operations to the expenditures reported on the Form SSA-4513.
- Reviewed DE-DDS electronic data processing general controls and physical security at its offices in Wilmington, Delaware.

We concluded the electronic data used in our audit were sufficiently reliable, given the audit objectives and intended use of the data, and should not lead to incorrect or unintentional conclusions. We assessed the reliability of the electronic data by reconciling it with the costs claimed on the Form SSA-4513. We also conducted detailed audit testing on selected data elements from the electronic files.

We performed work at the DE-DDS in Wilmington, Delaware, and the Office of Audit in Baltimore, Maryland. We conducted fieldwork from August 2004 through May 2005. The audit was conducted in accordance with generally accepted government auditing standards.

SAMPLING METHODOLOGY

Our sampling methodology encompassed the four general areas of costs as reported on Form SSA-4513: (1) personnel, (2) medical, (3) indirect, and (4) all other nonpersonnel costs. We obtained data extracts from DE-DDS for FYs 2001 through 2003. Also, we randomly selected one month in each of the 3-year audit period and reviewed supporting documents for all Medical Consultants under contract to DE-DDS.

Personnel Costs

We randomly selected one pay period in FYs 2001, 2002, and 2003 and reviewed all personnel transactions for the pay period. We tested DE-DDS payroll records to ensure DDS correctly paid employees and adequately documented these payments.

For medical consultant costs, we randomly selected one month in FYs 2001, 2002, and 2003. We selected all medical consultants during that period and verified that the medical consultants were paid in accordance with the approved contract.

Medical Costs

We stratified medical costs into medical evidence of record and consultative examinations and selected a stratified random sample of 150 items (50 items from each stratum in FYs 2001, 2002, and 2003).

Indirect Costs

We determined the State-wide indirect cost allocation to the parent agency was performed using an indirect cost negotiation agreement approved by the cognizant Federal agency (Department of Labor). The agreement states "...any fixed rate contained in the agreement was based on an estimate of the cost which will be incurred during the period for which the rate applies. When the actual costs for such period have been determined, an adjustment will be made in the negotiation following such determination, to compensate for the difference between the cost used to establish the fixed rate and that which would have been used were the actual costs known at the time." We reviewed the State-wide allocation for FYs 2001, 2002, and 2003, to verify the State applied the approved fixed rate to the DDS.

All Other Nonpersonnel Costs

We selected a stratified random sample of 150 items (50 items from each FY) from the All Other Non-personnel Costs category. We stratified the transactions into the appropriate categories and distributed the 50 sample items for each year between categories based on the proportional distribution of the costs.

Agency Comments

August 4, 2005

Administrative Costs Claimed by the Delaware Disability Determination Services (A-13-05-15011)-Response

A review of the draft report entitled, Administrative Costs Claimed by the Delaware Disability Determination Services (DDS) (A-13-05-15011) for Fiscal Years ending 2001 through 2003, contained three recommendations. We have received the Delaware Department of Labor (DOL) response to the draft report, including their supporting documentation.

Our comments are as follows:

Instruct the DE-DOL and the DE-DDS to include Administrative Services and Technical Support (AS&T) costs in the Statewide Indirect Cost Allocation Plan and report the AS&T costs as indirect costs on the SSA-4513.

- We agree with the recommendation that DE-DOL should amend the statewide cost allocation plan for the state fiscal year covering the period July 1, 2005 through June 30, 2006 to incorporate the AS&T charges. We also agree that the AS&T charges should be reported as indirect costs on the SSA-4513 and will instruct the DE-DDS to reclassify these costs as indirect costs.

Work with the DE-DOL and the DE-DDS to determine the validity of the unsupported costs of \$12,200 and refund any disbursements for which support could not be provided.

- We agree with this recommendation partially. Unsupported costs of \$12,200 includes two specific costs; \$11,100 for telephone charges and \$1,100 for off-site storage rental fees. The DE-DOL provided the OIG with the supporting documentation for the telephone charges of \$11,100 subsequent to the release of the draft audit report. This portion of the finding has been resolved.
- The balance of unsupported costs of \$1,100 for off-site storage rental fees remains undocumented and should be refunded to SSA.

Instruct the DE DOL and the DDS to provide adequate documentation to support the action to grandfather-in temporary employees.

- We agree with this recommendation and recognize that DE-DOL response does not adequately address the issue. SSA will recommend to DE-DOL to alter the State of Delaware's procurement policy to add appropriate language regarding grandfathering provisions.

If you have any questions, please contact Betty Martin in the Center for Disability Programs at 215-597-2047.

/s/
Laurie Watkins

Appendix D

State Agency Comments



DEPARTMENT OF THE SECRETARY
4425 NORTH MARKET STREET • WILMINGTON, DELAWARE • 19802 • (302) 761-8000 • FAX (302) 761-6621

Winner, Delaware Quality Award of Merit

July 20, 2005

Mr. Patrick P. O'Carroll, Jr.
Inspector General
6401 Security Blvd.
Suite 300, Altmeyer Bldg.
Baltimore, MD 21235-0001

Dear Mr. O'Carroll:

Thank you for your letter dated June 28, 2005 providing us with a copy of the draft report entitled *Administrative Costs Claimed by the Delaware Disability Determination Services (A-13-05-15011)*. We were quite pleased to find that your report indicated that "DE-DDS had effective internal controls over the accounting and reporting of administrative costs", and that the "general security controls that we reviewed were effective".

Attached you will find the Delaware Department of Labor written response to the three recommendations in the report as you requested in your letter.

Should you have any questions, please do not hesitate to contact the Department of Labor Controller, Ms. Kris Brooks, at (302) 761-8024; or Mr. Andrew Marioni, Deputy Director, Division of Vocational Rehabilitation at (302) 324-7693.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas B. Sharp".

Thomas B. Sharp
Secretary of Labor

Attachment: DOL Audit Response

Cc: Ms. Kris Brooks, Controller
Mr. Richard Eakle, Deputy Principal Assistant
Ms. Andrea Guest, Director, Division of Vocational Rehabilitation
Mr. Andrew Marioni, Deputy Director, Division of Vocational Rehabilitation

Attachment 1
DE – DDS Audit Responses

- 1. Recommendation: Instruct the DE-DOL and DE-DDS to include AS&T costs in the Statewide Indirect Cost Allocation Plan and report the AS&T costs as indirect costs on the SSA-4513.**

DEPARTMENT OF LABOR'S RESPONSE:

The methodology used to calculate AS&T charges is in compliance with the policies and procedures contained in OMB Circular A-87 and have been approved by the U.S. Department of Labor Regional Cost Negotiator. We see no reason at this time to change our allocation methodology.

- 2. Recommendation: Work with DE-DOL and DE-DDS to determine the validity of the unsupported costs of \$12,200 and refund any disbursements for which support could not be provided.**

DEPARTMENT OF LABOR'S RESPONSE:

We disagree that we did not provide sufficient documentation to support the \$11,100 in telephone charges. James Caldwell from the Delaware Department that manages Telephone Services provided supporting documentation containing these bills. In addition, detailed listings of telephone numbers from the actual bills were obtained and forwarded to OIG. These bills were reconciled utilizing the supporting documentation.

We agree that we cannot locate the documentation to support the \$1,100 in offsite storage bills. That lease was signed ten years ago and when the lease expired, a copy was sent to archives but has since been removed from archives.

- 3. Recommendation: Instruct the DE-DOL and DE-DDS to provide adequate documentation to support the action to grandfather-in temporary employees.**

DEPARTMENT OF LABOR'S RESPONSE:

We disagree that we did not provide adequate documentation. We provided the OIG with documentation from Arnold Cookson, State Procurement Officer, who confirmed in writing that such employees were grandfathered-in on the basis that the hire date preceded the mandatory use contract.

Appendix E

OIG Contacts and Staff Acknowledgments

OIG Contacts

Shirley E. Todd, Director, General Management Audit Division (410) 966-9365

Randy Townsley, Audit Manager, General Management Audit Division
(410) 966-1039

Acknowledgments

William Alan Carr, Auditor-in-Charge

Eugene Crist, Auditor

Kimberly Beauchamp, Writer/Editor

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