

Audit Report

Administrative Costs Claimed by the
Arkansas Disability Determination
Services

A-06-12-12102 / May 2013

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: May 8, 2013

Refer To:

To: Martha Lambie
Regional Commissioner
Dallas

From: Inspector General

Subject: Administrative Costs Claimed by the Arkansas Disability Determination Services
(A-06-12-12102)

The attached final report presents the results of our audit. Our objectives were to (1) evaluate the Arkansas Disability Determination Services' (AR-DDS) internal controls over the accounting and reporting of administrative costs; (2) determine whether costs AR-DDS claimed were allowable and funds were properly drawn; and (3) assess, on a limited basis, the general security controls environment.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

cc:

Ann Robert, Acting Associate Commissioner for Disability Determinations
Carla Krabbe, Associate Commissioner for Financial Policy and Operations
Gary S. Hatcher, Senior Advisor for Records Management and Audit Liaison Staff
Arthur Boutiette, Director, Arkansas Disability Determination Services

Administrative Costs Claimed by the Arkansas Disability Determination Services

A-06-12-12102



May 2013

Office of Audit Report Summary

Objectives

To evaluate the Arkansas Disability Determination Services' (AR-DDS) internal controls over the accounting and reporting of administrative costs; determine whether costs AR-DDS claimed were allowable and funds were properly drawn; and assess, on a limited basis, the general security controls environment.

Background

Disability determination services (DDS) in each State or other responsible jurisdiction perform disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs. DDSs must perform such determinations in accordance with Federal law and regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.

To make proper disability determinations, SSA authorizes each DDS 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 each DDS for 100 percent of allowable reported expenditures up to its approved funding authorization.

Our Findings

AR-DDS' internal controls over the accounting and reporting of administrative costs were effective. Costs claimed were allowable, and funds were properly drawn. Our limited review of AR-DDS' security controls environment showed controls were generally adequate. However, we identified two areas where AR-DDS could better protect claimant data and office facilities.

During our review of security controls, we determined AR-DDS did not secure an annex building in accordance with SSA policy. We communicated specific concerns to AR-DDS and SSA. During the audit, AR-DDS corrected the discrepancies.

AR-DDS' custodial contractor cleaned offices during non-business hours. During our review, we observed facsimile machines used to receive claims-related documents operating after normal business hours. Documents containing personally identifiable information could be faxed to AR-DDS and sit unattended until DDS personnel returned to work the following day. While in the facsimile trays, these documents were accessible to cleaning service personnel.

Our Recommendation

We recommend that SSA consider requiring that AR-DDS contract for custodial service during business hours or ensure claimant information is properly secured from unauthorized personnel if cleaning continues during non-business hours.

SSA and AR-DDS agreed with the recommendation and stated that AR-DDS had taken corrective action.

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ABBREVIATIONS

AR-DDS	Arkansas Disability Determination Services
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
FFY	Federal Fiscal Year
POMS	Program Operations Manual System
SSA	Social Security Administration
U.S.C.	United States Code

OBJECTIVES

Our objectives were to (1) evaluate the Arkansas Disability Determination Services' (AR-DDS) internal controls over the accounting and reporting of administrative costs; (2) determine whether costs AR-DDS claimed were allowable and funds were properly drawn; and (3) assess, on a limited basis, the general security controls environment.

BACKGROUND

Disability determination services (DDS) in each State or other responsible jurisdiction perform disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs. DDSs are required to perform such determinations in accordance with Federal law and regulations.¹ Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.

To make proper disability determinations, SSA authorizes each DDS 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 when the evidence as a whole, both medical and nonmedical, is insufficient to make a disability determination.² SSA reimburses each DDS for 100 percent of allowable reported expenditures up to its approved funding authorization for costs reported on a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513).³ AR-DDS, located in Little Rock, Arkansas, claimed annual administrative costs of about \$35 million in Federal Fiscal Year (FFY) 2010 and about \$40 million in FFY 2011. See Appendix A for additional information on our scope and methodology.

RESULTS OF REVIEW

AR-DDS' controls over the accounting and reporting of administrative costs for FFYs 2010 and 2011 were effective. Costs claimed for FFYs 2010 and 2011 were allowable, and funds were properly drawn. Finally, our limited review of AR-DDS' security controls environment showed controls were generally adequate. However, we identified two areas where AR-DDS could improve controls to better protect claimant data and office facilities.

¹ Social Security Act §§ 221 and 1614, 42 U.S.C. §§ 421 and 1382c; 20 C.F.R. §§ 404.1601, *et seq.*, and 416.1001, *et seq.*

² SSA, POMS, DI 39545.120.A. (April 20, 2007).

³ SSA, POMS, DI 39501.020 B. (February 28, 2002), DI 39506.001.B. (March 12, 2002), and DI 39506.202.A. (March 12, 2002).

General Security Controls

SSA policy requires that DDSs adequately safeguard claimant/program information and facilities that DDS personnel use. Though our limited review of AR-DDS' general security controls environment showed controls were generally effective, we identified areas where AR-DDS could better protect claimant data and office facilities.

Annex Building Security

In 2010, AR-DDS constructed a 19,542-square-foot annex to its main facility. The annex provides workspace for hundreds of AR-DDS employees as well as storage space for claims-related medical records. Walkways connect the annex to the main DDS facility.

AR-DDS did not secure its annex building in accordance with SSA policy. We communicated our concerns to AR-DDS and SSA. Effective physical security reduces the risk of unauthorized individuals entering DDS facilities during nonworking hours and accessing sensitive SSA information stored in AR-DDS office space.

During the audit, AR-DDS took corrective action to address the security issues.

After-hours Custodial Service

SSA policy states DDSs should secure claimant records to avoid unauthorized disclosures when contractors clean offices outside normal business hours. AR-DDS' contracted service cleaned offices during non-business hours. During our review, we observed facsimile machines used to receive claims-related documents operating after normal business hours. Documents containing personally identifiable information could be faxed to AR-DDS and sit unattended until DDS personnel returned to work the following day. While in the facsimile trays, these documents were accessible to cleaning service personnel.

CONCLUSIONS

AR-DDS' internal controls over the accounting and reporting of administrative costs for FFYs 2010 and 2011 were effective to ensure costs claimed were allowable, and funds were properly drawn. AR-DDS' general security controls were generally adequate, but we identified areas where AR-DDS could improve controls and better protect office facilities and claimant data. During the audit, AR-DDS corrected the annex building security issues.

RECOMMENDATION

We recommend that SSA consider requiring that AR-DDS contract for custodial service during business hours or ensure claimant information is properly secured from unauthorized personnel if cleaning continues during non-business hours.

AGENCY COMMENTS

SSA and AR-DDS agreed with the recommendation and stated that AR-DDS had taken corrective action. See Appendix B for the full text of the Agency's comments and Appendix C for the full text of AR-DDS' comments.

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

Scope

To accomplish our objectives, we reviewed the administrative costs Arkansas Disability Determination Services (AR-DDS) reported on its Forms SSA-4513 for Federal Fiscal Years (FFY) 2010 and 2011. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions and determined whether they were allowable under Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, and appropriate, as defined by SSA's Program Operations Manual System (POMS). In addition, we:

- Reviewed applicable Federal laws, regulations, and pertinent parts of SSA's POMS and other instructions pertaining to administrative costs claimed by AR-DDS and the drawdown of SSA funds.
- Interviewed AR-DDS staff.
- Evaluated and tested internal controls regarding accounting, financial reporting, and cash management activities.
- Reconciled accounting records to the administrative costs reported by AR-DDS on Forms SSA-4513 for FFYs 2010 and 2011.
- Examined the administrative expenditures (Personnel, Medical, and All Other Non-personnel costs) incurred and claimed by AR-DDS for FFYs 2010 and 2011 on Forms SSA-4513.
- Examined the indirect costs AR-DDS claimed for FFYs 2010 and 2011 and the corresponding Cost Allocation Plans.
- Compared the total funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Determined whether AR-DDS excluded the cost of non-SSA work from the costs it claimed on Forms SSA-4513 for FFYs 2010 and 2011.
- Conducted limited general control testing, which encompassed reviewing the physical access security in AR-DDS.
- Reviewed policies and procedures related to personally identifiable information to determine whether AR-DDS had controls in place to protect these data.

The electronic data used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the electronic data by reconciling them with the costs claimed on the Forms SSA-4513. We also conducted detailed testing of selected data elements in the electronic data files.

We conducted our audit at AR-DDS in Little Rock, Arkansas, and the Office of Audit in Dallas, Texas, from July through December 2012. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Methodology

Our sampling methodology encompassed the four general areas of costs as reported on Forms SSA-4513: (1) Personnel, (2) Medical, (3) Indirect, and (4) All Other Non-personnel. We obtained computerized cost data from AR-DDS for FFYs 2010 and 2011. We used the computerized data to select a statistical sample for our control tests.

Personnel Costs

For our control tests, we sampled 50 employee salary items from 1 randomly selected pay period in FFY 2011. We tested regular and overtime payroll and hours for each individual selected and verified that approved time records were maintained and supported the hours worked. Our control tests determined whether AR-DDS charged SSA correct payroll costs.

Medical Costs

For our control tests, we sampled 100 medical evidence of record and consultative examination transactions (50 items from each FFY) using a proportional random sample. Our control tests determined whether AR-DDS charged SSA the correct medical costs.

Indirect Costs

For our control tests, we reviewed indirect costs in both FFYs 2010 and 2011. We tested the indirect cost pools included in the cost allocation plan. Our control tests determined whether AR-DDS allocated the indirect cost pools in accordance with the cost allocation plans.

All Other Non-Personnel Costs

We stratified All Other Non-personnel costs into 11 categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing Maintenance, (4) New Electronic Data Processing Equipment, (5) Equipment Purchases, (6) Equipment Rental, (7) Communications, (8) Applicant Travel, (9) DDS Travel, (10) Supplies, and (11) Miscellaneous. For our control tests, we selected a stratified random sample of 50 items from each FFY based on the percentage of costs in each category. Our control tests determined whether AR-DDS correctly charged SSA for All Other Non-personnel costs.

General Security Controls

We conducted limited general security control testing. Specifically, we reviewed the following eight areas relating to general security controls: (1) Perimeter Security, (2) Internal Security, (3) Physical Access Controls, (4) Visitor Access Guidelines, (5) Office Safety, (6) Personally Identifiable Information, (7) Security Plan, and (8) Other Security Controls. We determined whether the general security controls AR-DDS had in place were satisfactory.

Appendix B – AGENCY COMMENTS

April 09, 2013

Subject: Dallas Reply: Signed Draft Report (A-06-12-12102)

Pat,

Thank you for sharing the Administrative Costs Claimed by the Arkansas Disability Determination Services (A-06-12-12102) audit. We appreciated the professional and collaborative approach of the audit team, which included Ron Gunia, Jason Arrington, Teresa Williams, Ashley Moore, and Wanda Renteria.

Following the audit, the Arkansas DDS corrected the two physical security findings. They secured their annex building in accordance with SSA policy and programmed their fax machines to print only after all contracted custodial service personnel have left the building each evening. The audit report was clear and concise and the Dallas Region concurs with the results.

Sincerely,

Martha J. Lambie
Regional Commissioner

Appendix C – ARKANSAS DISABILITY DETERMINATION SERVICES COMMENTS

March 29, 2013

Subject: Administrative Costs Audit for the AR DDS

Ron,

I am in receipt of the OIG draft audit from the Office of Inspector General on the Administrative Costs Audit. I want to report to you that the remaining outstanding finding on the audit is being corrected. The finding indicated that there was a chance that custodial personnel might have the opportunity to look at personally identifiable information. We have found a way to program all the fax machines in the agency so that they do not print any documents until after the agency is totally shut down for the evening, and not to re-start until all personnel of any kind are out of the building.

I would like to take this opportunity to personally thank the auditors from your staff who visited the Arkansas DDS on several occasions to conduct this audit. They were highly professional, thorough and always courteous to our employees. I also have appreciated the opportunity to work with you and I thank you for your constructive comments concerning the audit.

If I can answer any other questions or provide any other information, I would be happy to do so.

Arthur Boutiette
Director, Arkansas DDS

Appendix D – MAJOR CONTRIBUTORS

Ron Gunia, Dallas Division Director

Jason Arrington, Audit Manager

Teresa Williams, Senior Auditor

Ashley Moore, Auditor

Wanda Renteria, Senior Auditor

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