

Report Summary

Social Security Administration Office of the Inspector General

January 2009



Objective

To determine whether the indirect costs claimed by the Texas Disability Determination Services (TX-DDS) were allowable and properly allocated.

Background

Each year, the TX-DDS' parent agency, the Texas Department of Assistive and Rehabilitative Services (TX-DARS), prepares and submits an Indirect Cost Rate Proposal to the Department of Education, the cognizant Federal agency, for approval. The indirect costs are allocated from various indirect cost pools based on a predetermined set of allocation bases, such as the percentage of accounting transactions processed, full-time equivalent (FTE) employees assigned, or "Other Operating Expenses" incurred. A contractor prepared TX-DARS' initial indirect cost proposal for Fiscal Year (FY) 2006 based on actual financial data from FY 2004.

To view the full report, visit
<http://www.ssa.gov/oig/ADO/BEPDF/A-06-08-18092.pdf>

Indirect Costs Claimed by the Texas Disability Determination Services (A-06-08-18092)

Our Findings

Indirect costs claimed for reimbursement under the Social Security Administration's (SSA) disability programs were generally allowable and were paid in accordance with the cost rates approved by the cognizant agency. However, TX-DARS allocated indirect costs to TX-DDS in amounts that were not equitable in consideration of the relative benefit received. TX-DARS allocated costs to TX-DDS based on the percentage of accounting transactions processed, FTEs assigned, or "Other Operating Expenses" incurred when these allocation bases had little or no relation to the relative benefits received by TX-DDS. Use of this methodology resulted in cost allocations from TX-DARS cost pools in proportions significantly greater than TX-DDS' share of TX-DARS' budget.

Based on discussions with key TX-DARS personnel and our review of available information, the TX-DARS allocation methodology resulted in approximately \$2.2 million in excessive indirect costs charged to TX-DDS in FY 2007. As long as TX-DARS continues to use a similar indirect cost allocation methodology, excessive indirect cost allocations will continue to be allocated to TX-DDS. We estimate use of the current indirect cost allocation methodology will result in approximately \$3.3 million in excessive indirect cost allocations to TX-DDS in FY 2009. If the methodology is not changed, it could result in approximately \$9.8 million in excessive costs over the next 3 FYs.

Our Recommendation

We recommend SSA ensure TX-DDS bears no more than its fair share of indirect costs by working with TX-DARS and the Department of Education to develop and implement a methodology that allocates indirect costs in accordance with the relative benefits received by TX-DDS.