
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED BY
THE NORTH DAKOTA DISABILITY
DETERMINATION SERVICES**

April 2012 A-06-11-11159

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: April 9, 2012 Refer To:

To: Sean Brune
Regional Commissioner
Denver

From: Inspector General

Subject: Administrative Costs Claimed by the North Dakota Disability Determination Services
(A-06-11-11159)

OBJECTIVE

For our audit of Federal Fiscal Year (FY) 2009 and 2010 administrative costs claimed by the North Dakota Disability Determination Services (ND-DDS), our objectives were to

- evaluate ND-DDS' internal controls over the accounting and reporting of administrative costs;
- determine whether costs claimed were allowable and funds were properly drawn; and
- assess limited areas of 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. Such determinations must be performed 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. SSA reimburses the DDS for 100 percent of allowable reported expenditures up to its

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.

approved funding authorization, based on a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513). See Appendix B for additional scope and methodology.

RESULTS OF REVIEW

ND-DDS' internal controls over the accounting and reporting of administrative costs ensured costs claimed were allowable and funds were properly drawn. Our limited review of ND-DDS' controls over its physical security showed that controls were in place and effective. However, on several occasions, ND-DDS exceeded its approved obligation authority.

ND-DDS EXCEEDED OBLIGATION AUTHORITY

ND-DDS obligated funds in excess of its approved authority. SSA places cumulative limits on the amount of obligation authority made available to State agencies. States may not incur or make expenditures for items of cost not approved by SSA or in excess of the amount SSA makes available to the State.² However, our review of Forms SSA-4513 ND-DDS submitted during FYs 2009 and 2010 indicated that ND-DDS exceeded its approved obligation authority by as much as \$591,768.

Table 2: ND-DDS Obligation Discrepancies

Reporting Period	Obligation Authority	Cumulative Obligations Reported on SSA-4513	Amount that Obligations Exceeded Authority ³
FY 2009			
October–December 2008	\$616,668	\$642,694	\$26,026
April–June 2009	\$1,348,268	\$1,940,036	\$591,768
October–December 2009	\$2,587,838	\$2,612,738	\$24,900
January–March 2010	\$2,612,738	\$2,613,024	\$286
April–June 2010	\$2,613,024	\$2,613,930	\$906
FY 2010			
July–September 2010	\$2,991,992	\$2,998,925	\$6,933
October–December 2010	\$2,998,925	\$3,051,411	\$52,486
January–March 2011	\$3,051,411	\$3,052,328	\$917
April–June 2011	\$3,052,328	\$3,052,870	\$542

² SSA, POMS, DI 39506.001 A (March 12, 2002).

³ SSA subsequently authorized increased funding for the exact amount of the over-obligated amounts.

An ND-DDS official stated that the DDS did not have a direct connection between the State fiscal department and VERSA.⁴ The DDS legacy accounting system did not provide a precise report of obligations; therefore, the DDS reported some obligations based on manual calculations. As a result, ND-DDS did not record all obligations in the month or, in some cases, the FY incurred. Consequently, ND-DDS based monthly obligations reported to SSA on expenditures instead of obligations. This resulted in SSA establishing obligation authority in amounts lower than needed to cover all administrative expenses. ND-DDS officials stated they were examining the expense reporting process and planned to implement changes to improve obligation reporting timeliness.

CONCLUSION AND RECOMMENDATION

Internal controls over the accounting and reporting of administrative costs ensured costs claimed were allowable and funds were properly drawn. However, on several occasions during FYs 2009 and 2010, ND-DDS exceeded its obligation authority. As a result, we recommend that SSA instruct ND-DDS to continue working to improve obligation reporting timeliness and accuracy.

AGENCY COMMENTS

Both SSA and ND-DDS agree with the recommendation. See Appendix D for the full text of SSA's comments and Appendix E for the full text of ND-DDS' comments.



Patrick P. O'Carroll, Jr.

⁴ VERSA is a software program Federal and State agencies use to manage Social Security disability claims.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Schedule of Total Costs Reported on Form SSA-4513, *State Agency Reports of Obligations for SSA Disability Programs*

[APPENDIX D](#) – Agency Comments

[APPENDIX E](#) – North Dakota Disability Determination Services Comments

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

Appendix A

Acronyms

C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
FY	Fiscal Year
ND-DDS	North Dakota Disability Determination Services
ND-DHS	North Dakota Department of Human Services
POMS	Program Operations Manual System
SSA	Social Security Administration
U.S.C.	United States Code
<u>Form</u>	
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>

Scope and Methodology

SCOPE

To achieve our objectives, we:

- Reviewed applicable regulations, pertinent parts of the Social Security Administration's (SSA) Program Operations Manual System, and other criteria relevant to administrative costs claimed by the North Dakota Disability Determination Services (ND-DDS) and the drawdown of SSA funds.
- Interviewed staff at the North Dakota Department of Human Services (ND-DHS), ND-DDS, and SSA's Denver Regional Office.
- Reviewed State policies and procedures related to Personnel, Medical Services, Indirect, and All Other Non-personnel costs.
- Evaluated, tested, and documented internal controls regarding accounting, financial reporting, and cash management activities.
- Reconciled State accounting records to the administrative costs reported by ND-DDS on the *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for Federal Fiscal Years (FY) 2009 and 2010.
- Reviewed specific administrative expenditures (Personnel, Medical Services, and All Other Non-personnel costs) incurred and claimed by ND-DDS for FY 2010 on the SSA-4513.
- Reviewed the indirect costs claimed by ND-DDS for FYs 2009 and 2010 and the corresponding Indirect Cost Allocation Plan.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on the SSA-4513.
- Reviewed the State of North Dakota's single audit reports for FYs 2009 and 2010.
- Determined whether unliquidated obligations were properly supported.
- Conducted limited general security controls testing.

We determined the data provided by ND-DHS and ND-DDS and used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the data by reconciling them with the costs claimed on the Form SSA-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We performed audit work at the ND-DDS and ND-DHS in Bismarck, North Dakota, and the audit office in Dallas, Texas. We conducted fieldwork from May through

November 2011. We conducted the 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

The sampling methodology encompassed the three general areas of costs reported on the SSA-4513: (1) Personnel, (2) Medical Services, (3) All Other Non-personnel costs. ND-DDS provided FY 2010 computerized data for use in statistical sampling.

Personnel Costs

We sampled 26 employee salary items from 1 randomly selected pay period in FY 2010. We tested regular and overtime payroll and hours for each individual. We verified that approved time records were maintained and supported the hours worked. We tested payroll records to ensure ND-DDS correctly paid employees and adequately documented these payments.

We also reviewed payments to all medical consultants during a randomly selected period in FY 2010. We determined whether ND-DDS paid medical consultants in accordance with approved contracts and verified that selected medical consultants were properly licensed.

Medical Services Costs

We sampled 50 items using a stratified random sample of medical costs based on the proportion of medical evidence of record and consultative examination costs to the total medical costs claimed. We determined whether sampled expenditures were adequately documented and amounts paid were in accordance with approved rate schedules.

All Other Non-personnel Costs

We stratified all other non-personnel costs into nine categories: (1) Contracted Costs, (2) Electronic Data Processing Maintenance, (3) New Electronic Data Processing Equipment/Upgrades (4) Equipment Purchases and Rentals, (5) Communications, (6) Applicant Travel, (7) DDS Travel, (8) Supplies, and (9) Miscellaneous. We selected a stratified random sample of 50 items based on the proportion of costs in each category to the total costs. We also reviewed occupancy costs for a randomly selected month (two payments) and judgmentally selected and reviewed two additional expense items (one Electronic Data Processing Maintenance and one Communications). We traced expenditures to supporting documentation to determine their validity and accuracy.

Appendix C

Schedule of Total Costs Reported on Form SSA-4513, State Agency Reports of Obligations for SSA Disability Programs

North Dakota Disability Determination Services			
REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
FY 2009			
Personnel	\$1,413,497	\$0	\$1,413,497
Medical	\$649,673	\$0	\$649,673
Indirect	\$253,072	\$0	\$253,072
All Other	\$297,391	\$0	\$297,391
TOTAL	\$2,613,633	\$0	\$2,613,633
FY 2010			
Personnel	\$1,665,110	\$0	\$1,665,110
Medical	\$851,554	\$5,465	\$857,019
Indirect	\$234,133	\$0	\$234,133
All Other	\$295,149	\$0	\$295,149
TOTAL	\$3,045,946	\$5,465	\$3,051,411

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: March 13, 2012

Refer To:

To: Patrick P. O'Carroll, Jr.
Inspector General

From: Denver Regional Commissioner

Subject: Administrative Costs Claimed by the North Dakota Disability Determination Services (A-06-11-11159)

Thank you for the opportunity to review and comment on the Administrative Costs Claimed by the North Dakota Disability Determination Services (A-06-11-11159) draft audit report. We concur with the findings and recommendation of the audit. We will continue to work with the North Dakota Disability Determination Services to improve obligation reporting timeliness and accuracy.

Your staff may direct questions to Sue Neitzert, Center for Disability, at (303) 844-7100.

Sincerely,

A handwritten signature in black ink, appearing to read "S. P. Brune".

Sean P. Brune

Appendix E

North Dakota Disability Determination Services Comments

SOCIAL SECURITY DISABILITY DETERMINATION SERVICES
1237 W. Divide Ave - Suite 4
Bismarck, North Dakota 58501

April 10, 2012

Mr. Ron Gunia
Audit Director
SSA/OIG
Dallas Audit Division

Dear Mr. Gunia:

In response to your draft audit report A-06-11-11159 dated March 8, 2012, the North Dakota Department of Human Services' Disability Determination Services concurs with your findings.

We will continue to review our procedures and processes related to obligation reporting and expenditures. We will also continue to look for improvements in our obligation reporting procedures and practices.

We wish to thank the audit team for their assistance and professionalism during the audit process. We also appreciate their assistance in helping us address these issues.

Please feel free to contact me further if you need any additional information or have further questions. Thank you.

Sincerely,

Sheri Seil

Sheri Seil
Administrator
ND Disability Determination Services

Appendix F

OIG Contacts and Staff Acknowledgments

OIG Contacts

Ron Gunia, Director, Dallas Audit Division

Neha Smith, Audit Manager, Denver Audit Office

Acknowledgments

In addition to those named above:

Lela Mitchell, Senior Auditor

For additional copies of this report, please visit our Website at <http://oig.ssa.gov> or contact the Office of the Inspector General's Public Affairs Staff at (410) 965-4518. Refer to Common Identification Number A-06-11-11159.

DISTRIBUTION SCHEDULE

Commissioner of Social Security
Chairman and Ranking Member, Committee on Ways and Means
Chief of Staff, Committee on Ways and Means
Chairman and Ranking Minority Member, Subcommittee on Social Security
Majority and Minority Staff Director, Subcommittee on Social Security
Chairman and Ranking Minority Member, Committee on the Budget, House of Representatives
Chairman and Ranking Minority Member, Committee on Oversight and Government Reform
Chairman and Ranking Minority Member, Committee on Appropriations, House of Representatives
Chairman and Ranking Minority, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives
Chairman and Ranking Minority Member, Committee on Appropriations, U.S. Senate
Chairman and Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate
Chairman and Ranking Minority Member, Committee on Finance
Chairman and Ranking Minority Member, Subcommittee on Social Security Pensions and Family Policy
Chairman and Ranking Minority Member, Senate Special Committee on Aging
Social Security Advisory Board

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Counsel to the Inspector General

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

Office of External Relations

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.