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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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

**July 2004      A-07-04-14016**

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**AUDIT REPORT**

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## **Mission**

**We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the 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.**
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- 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.**

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- 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**

**By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.**



## SOCIAL SECURITY

### MEMORANDUM

**Date:** July 16, 2004 **Refer To:**

**To:** James C. Everett  
Regional Commissioner  
Denver

**From:** Assistant Inspector General  
for Audit

**Subject:** Administrative Costs Claimed by the Montana Disability Determination Services  
(A-07-04-14016)

### OBJECTIVE

The objectives of our audit were to evaluate the Montana Disability Determination Services' (MT-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. Our audit included the administrative costs claimed by the MT-DDS during Fiscal Years (FY) 2000 through 2002.

### BACKGROUND

Disability determinations under the Social Security Administration (SSA) Disability Insurance and Supplemental Security Income programs are performed by Disability Determination Services (DDS) in each State or other responsible jurisdictions. Such determinations are required to be performed in accordance with Federal law and underlying regulations.<sup>1</sup> 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, the

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<sup>1</sup> 42 U.S.C. § 421; 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.* (2004).

DDS is authorized by SSA to purchase consultative examinations to supplement evidence obtained from the claimants' physicians or other treating sources. SSA authorizes an annual budget to reimburse the DDS for 100 percent of allowable expenditures.<sup>2</sup>

The Montana Department of Public Health and Human Services (MT-DPHHS) is the MT-DDS's parent agency. The MT-DDS is located in Helena, Montana. See Appendix B for additional background information, and the scope and methodology of our review.

## **RESULTS OF REVIEW**

Generally, the MT-DDS had effective internal controls over the accounting and reporting of administrative costs and the costs it claimed during our audit period were allowable. However, improvements are needed in the areas of cash management and inventory procedures. Furthermore, the MT-DDS needs to develop a contingency plan.

### **CASH MANAGEMENT**

States are required under the Cash Management Improvement Act (CMIA) of 1990 to submit an Annual Report to the Department of Treasury (Treasury).<sup>3</sup> The Annual Report includes State and Federal interest liabilities calculated for each of the programs covered under the States' CMIA agreement.<sup>4</sup> A State interest liability occurs when the State draws funds before program expenses are paid.<sup>5</sup> A Federal interest liability occurs when Federal funds are not available to the State to meet immediate program expenses.<sup>6</sup> SSA's disability program was included in the State of Montana's CMIA agreement for the first time in State Fiscal Year (SFY) 2002, when disability program expenditures reached the States' threshold of \$4 million for inclusion in the CMIA agreement.

We found MT-DPHHS incorrectly reported Federal interest liabilities to Treasury on SSA's disability program of \$3,409 and \$719 for SFYs 2002 and 2003, respectively. The inaccurate Federal interest liabilities occurred because MT-DPHHS:

- Used a cash balance that was created before the CMIA agreement became effective to calculate interest liabilities. Cash balances for periods prior to the

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<sup>2</sup> 20 C.F.R. §§ 404.1626 and 416.1026 (2004).

<sup>3</sup> 31 C.F.R. § 205.26 (2004).

<sup>4</sup> *ibid.*

<sup>5</sup> 31 C.F.R. § 205.15 (2004).

<sup>6</sup> 31 C.F.R. § 205.14 (2004).

effective date of the CMIA agreement cannot be used to calculate interest liabilities under the CMIA agreement.<sup>7</sup>

- Did not have a process in place to ensure funds were drawn in accordance with the CMIA agreement. Specifically, Federal funds were not drawn in time to meet the MT-DDS' disbursements even though the Federal funds were available. As a result, the States' cash management records had a negative daily cash balance for the MT-DDS during portions of SFYs 2002 and 2003. Since interest liabilities are calculated based on the daily cash balance, a Federal interest liability occurred.

## **INVENTORY PROCEDURES**

The MT-DDS' inventory list was not complete because it did not include information on 66 computers. According to the MT-DDS, the lack of appropriate inventory procedures occurred because there was uncertainty between the MT-DDS and SSA on who was responsible for the inventory of the computers. According to SSA instructions, "The State is responsible for maintenance and inventory of all equipment acquired whether purchased through SSA or the State."<sup>8</sup> Maintaining complete inventory records will help prevent and/or detect stolen or misplaced equipment.

## **CONTINGENCY PLAN**

The MT-DDS did not have a contingency plan to follow in the event of a disaster that impacts DDS operations. SSA instructions state, "Events may occur which will prevent normal operations and interfere with the accomplishment of the mission of the DDS. Because of this, each office must prepare a contingency plan."<sup>9</sup> The MT-DDS stated that a contingency plan will be developed.

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<sup>7</sup> 31 C.F.R. § 205.19 (2004).

<sup>8</sup> Program Operations Manual System (POMS) DI 39530.020.

<sup>9</sup> POMS DI 39566.050.

## **CONCLUSIONS AND RECOMMENDATIONS**

The MT-DDS had effective internal controls over the accounting and reporting of administrative costs and the costs it claimed during our audit period were allowable. However, improvements are needed in the areas of cash management and inventory procedures. Furthermore, the MT-DDS needs to develop a contingency plan.

We recommend SSA instruct the MT-DDS and MT-DPHHS to:

1. Refund \$4,128 to Treasury for the unallowable Federal interest liabilities claimed in SFYs 2002 and 2003.
2. Implement procedures to draw cash in accordance with the CMIA agreement.
3. Maintain a comprehensive inventory list that includes all computer equipment.
4. Develop a contingency plan.

## **AGENCY COMMENTS**

In response to our draft report, SSA agreed with our recommendations. See Appendix C for the full text of SSA's comments. The MT-DPHHS stated that it agreed with our recommendations and had no formal comments to our draft report.



Steven L. Schaeffer  
Steven L. Schaeffer

# **Appendices**

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**APPENDIX A** – Acronyms

**APPENDIX B** – Background, Scope and Methodology

**APPENDIX C** – Agency Comments

**APPENDIX D** – OIG Contacts and Staff Acknowledgments

## **Appendix A**

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### **Acronyms**

Act	Social Security Act
C.F.R.	Code of Federal Regulations
CMIA	Cash Management Improvement Act
DDS	Disability Determination Service
DI	Disability Insurance
FY	Fiscal Year
MT-DDS	Montana Disability Determination Services
MT-DPHHS	Montana Department of Public Health and Human Services
POMS	Program Operations Manual System
SFY	State Fiscal Year
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

# **Background, Scope and Methodology**

## **BACKGROUND**

The Disability Insurance (DI) program was established in 1954 under Title II of the Social Security Act (Act).<sup>1</sup> The program provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program was created as a result of the Social Security Amendments of 1972 with an effective date of January 1, 1974. SSI (Title XVI of the Act) provides a nationally uniform program of income to financially needy individuals who are aged, blind, and/or disabled.<sup>2</sup> The Social Security Administration (SSA) is primarily responsible for implementing policies governing 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 or other responsible jurisdictions.

The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system to pay for program expenditures. Funds drawn down must comply with Federal regulations<sup>3</sup> and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act (CMIA) of 1990.<sup>4</sup> At the end of each quarter of the fiscal year (FY), DDS submits a *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) to account for program disbursements and unliquidated obligations.

## **SCOPE**

To achieve our objective, we:

- Reviewed applicable Federal regulations, pertinent parts of Program Operations Manual System DI 39500 *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by Montana Disability Determination Services (MT-DDS) and the draw down of SSA funds.
- Interviewed State of Montana internal auditors who performed the Montana single audit. Because of the limited scope of the single audit work performed at MT-DDS, we did not rely on the single audit work.

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<sup>1</sup> 42 United States Code (U.S.C.) § 401 et seq. (2004).

<sup>2</sup> 42 U.S.C. § 1381 et seq. (2004).

<sup>3</sup> 31 Code of Federal Regulation § 205.1 (2003).

<sup>4</sup> Public Law 101-453.

- Interviewed staff at MT-DDS, Montana Department of Public Health and Human Services (MT-DPHHS) and SSA Regional Office.
- Reviewed State policies and procedures related to personnel, medical services, and all other nonpersonnel costs.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Reviewed the reconciliation of official State accounting records to the administrative costs reported by MT-DDS on the SSA-4513 for FYs 2000 through 2002.
- Reviewed the administrative costs MT-DDS reported on its SSA-4513 for FYs 2000 through 2002.
- Examined the administrative expenditures (personnel, medical service, and all other nonpersonnel costs) incurred and claimed by MT-DDS for FYs 2000 through 2002 on the SSA-4513. We used statistical sampling to select documents to test for support of the medical service and all other nonpersonnel costs.
- Examined the indirect costs claimed by MT-DDS for FYs 2000 through 2002 and the corresponding Cost Allocation Plan.
- Compared the amount of SSA funds drawn for support of program operations to the expenditures reported on the SSA-4513.
- Discussed indirect costs issues with the Department of Health and Human Services' Division of Cost Allocation.
- Reviewed MT-DDS general security controls related to physical security and continuity of operations.

We determined that the data provided by MT-DPHHS and 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 MT-DDS and the MT-DPHHS in Helena, Montana, and the Office of Audit in Kansas City, Missouri. We conducted fieldwork from August 2003 through February 2004. The audit was conducted in accordance with generally accepted government auditing standards.

## **METHODOLOGY**

### **SAMPLING METHODOLOGY**

We tested documents supporting the \$12,431,983 in costs claimed by the MT-DDS for the period October 1, 1999 through September 30, 2002. 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 non-personnel costs. We obtained a data extract of all costs and the associated invoices for FYs 2000 through and 2002 for use in statistical sampling. This was obtained from the accounting systems used in the preparation of the SSA-4513.

#### ***Personnel Costs***

We reviewed 44 employees and 7 contractors from one judgmentally selected pay period in FY 2002. We tested the payroll records to ensure individuals were paid correctly and payroll was adequately documented.

#### ***Medical Costs***

We sampled 150 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***

The MT-DDS utilized spreadsheets to allocate indirect costs for FY 2000 and the first 3 quarters of FY 2001. During the last quarter of FY 2001, the MT-DDS began using the Peoplesoft system to capture the amounts of indirect cost instead of spreadsheets. For this reason we randomly selected one Federal quarter of indirect expenses for each FY under review. In addition, we reviewed the one quarter in FY 2001 during which the MT-DDS transitioned to the Peoplesoft system.

#### ***All Other Nonpersonnel Costs***

We sampled 150 items (50 expenditures from each FY) using a stratified random sample. The random sample was based on the proportion of costs in each of eight cost categories to the total costs claimed. MT-DDS did not use the all other nonpersonnel cost subcategories of costs that are presented on the new SSA-4513 layout. Therefore, we categorized costs using the same cost categories used by the State's accounting system. The categories we used for sample stratification are similar to the SSA-4513 cost categories. In addition, we reviewed occupancy costs for one month in each FY.

## **Appendix C**

### **Agency Comments**

**MEMORANDUM**

Date: June 23, 2004  
FM 14-1

Refer To: S2G8B4:RC

To: Assistant Inspector General  
for Audit

From: James C. Everett /s/  
Denver Regional Commissioner

Subject: Administrative Costs Claimed by the Montana Disability Determination Services (DDS)  
(A07-04-14016) (Your Memo, 6/4/2004)—REPLY

Thank you for providing us the opportunity to review the draft report of audit for the Montana DDS. We have reviewed the draft report and find that it was thorough and that the findings are accurate. We have no comments on the draft, as written.

Please let me know if you have any questions or concerns. The staff contact is Bob Carmichael, telephone (303) 844-4878.

## ***Appendix D***

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# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

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

Ron Bussell, Audit Manager (816) 936-5577

### ***Acknowledgments***

In addition to those named above:

Kenneth Bennett, Information Technology Specialist

Douglas Kelly, Auditor

Karis Gaukel, Auditor

Cheryl Robinson, Writer-Editor

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## **Overview of the Office of the Inspector General**

### **Office of Audit**

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

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The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

### **Office of Investigations**

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

### **Counsel to the Inspector General**

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.