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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  
NEW YORK DIVISION OF  
DISABILITY DETERMINATIONS**

**June 2007                    A-02-07-17046**

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**AUDIT REPORT**

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## **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:** June 11, 2007

**Refer To:**

**To:** Beatrice M. Disman  
Regional Commissioner  
New York

**From:** Inspector General

**Subject:** Administrative Costs Claimed by the New York Division of Disability Determinations  
(A-02-07-17046)

### **OBJECTIVE**

For our audit of Fiscal Year (FY) 2004 and 2005 administrative costs claimed by the New York Division of Disability Determinations (DDD), our objectives were to

- evaluate the DDD's internal controls over the accounting and reporting of administrative costs,
- determine whether costs claimed by the DDD were allowable and funds were properly drawn, and
- assess limited areas of the general security controls environment.

A review of the indirect cost was not part of this review. It will be completed at a later date.

### **BACKGROUND**

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction, according to Federal regulations.<sup>1</sup> Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To make proper disability determinations, each DDS is authorized to purchase consultative medical examinations and medical evidence of record from the claimants' physicians or other treating sources. SSA pays the DDS for 100 percent of allowable expenditures using a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513). (For additional background information, see Appendix B.)

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<sup>1</sup> 20 C.F.R. §§ 404.1601 et seq. and 416.1001 et seq.

## **RESULTS OF REVIEW**

The New York DDD had effective controls over the accounting and reporting of administrative costs. The costs claimed by the DDD on Forms SSA-4513 for FYs 2004 and 2005 – totaling \$286,218,585 – were allowable and funds were properly drawn. However, we found the general security control environment could be improved. The improvements will help ensure the security of sensitive SSA data stored and processed at the site.

## **GENERAL SECURITY CONTROLS**

### **Overall Security Plan**

According to SSA's Program Operations Manual System (POMS),<sup>2</sup> each DDS must establish and maintain a written DDS security plan. The DDD did not possess an approved overall security plan at the time of our review. The security plan was drafted and awaiting SSA approval before we began our review.

The DDD provided us its Business Continuity Plans for each of the four DDD office locations. In the event of a disruption to any SSA system, a Business Continuity Plan can be activated and conducted in tandem with the security plan to ensure the recovery of the affected functions. However, the Business Continuity Plans did not cover all of the eight required parts of an overall security plan.<sup>3</sup> Since our review, the DDD has completed an overall security plan. The plan was approved by SSA regional staff.

### **Other Security Issues**

We found a few physical security-related issues that needed to be addressed to help ensure SSA data stored and processed at the DDD were secure. The DDD failed to meet certain standards required by SSA physical security guidance.<sup>4</sup> The conditions posed the risk of unauthorized access to sensitive SSA information and systems and the interruption of service if the systems were compromised. The DDD staff stated that the DDD was denied the funding it requested to correct these conditions because of a lack of resources. We discussed our findings with DDD officials and they noted in their response to our draft report that they look forward to working with SSA to rectify the conditions in the near future.

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<sup>2</sup> POMS, Section DI 39566.120 B., DDS Security Plan.

<sup>3</sup> The eight required parts of the security plan are DDS Security Description; DDS Systems Interconnection Access Security Plan; Systems Security Awareness and Training Plan; Annual Systems Review/Recertification Plan; Violations Reports and Resolution Plan; Continuity of Operations Plan; Disaster Recovery Plan; and Risk Assessment. They are found in POMS, Section DI 39566.120 C., DDS Security Plan.

<sup>4</sup> POMS, Section DI 39566.010 B.1.H., DDS Physical Security.

## **CONCLUSION AND RECOMMENDATIONS**

While the DDD's internal controls over the accounting and reporting of administrative costs were effective, the general physical security controls can be improved. In our draft report, we made two specific recommendations on how to improve the physical security control environment. We omitted the specific recommendations in the final report to prevent compromising DDD security.

## **AGENCY COMMENTS**

SSA's New York Regional Commissioner and New York State's Commissioner of the Office of Temporary and Disability Assistance agreed with our comments. Please see Appendix D for the full text of SSA's comments.



Patrick P. O'Carroll, Jr.

# **Appendices**

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[\*\*APPENDIX A\*\*](#) - Acronyms

[\*\*APPENDIX B\*\*](#) - Background, Scope, and Methodology

[\*\*APPENDIX C\*\*](#) - Schedule of Total Costs Reported on Forms SSA-4513-*State Agency Reports of Obligations for Social Security Administration Disability Programs*

[\*\*APPENDIX D\*\*](#) - Agency Comments

[\*\*APPENDIX E\*\*](#) - OIG Contacts and Staff Acknowledgments

## **Appendix A**

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### **Acronyms**

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
DDD	Division of Disability Determinations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
IDS	Intrusion Detection System
OMB	Office of Management and Budget
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
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, established under Title II of the *Social Security Act* (Act),<sup>1</sup> provides benefits to wage earners and their families in the event the wage earner becomes disabled.<sup>2</sup> The Supplemental Security Income (SSI) program, established under Title XVI of the Act,<sup>3</sup> provides benefits to financially needy individuals who are aged, blind, or disabled.<sup>4</sup>

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both the DI and SSI programs are performed by disability determination services (DDS) in each State, Puerto Rico and the District of Columbia in accordance with Federal regulations.<sup>5</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized 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 expenditures up to its approved funding authorization. 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>6</sup> and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.<sup>7</sup>

An advance or reimbursement for costs under the program must comply with Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and*

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<sup>1</sup> Social Security Amendments of 1954, Pub. L. No. 83-761, 68 Stat. 1089.

<sup>2</sup> The *Social Security Act*, §§ 201-234, 42 U.S.C. §§ 401-434.

<sup>3</sup> Social Security Amendments of 1972, Pub. L. No. 92-603, 86 Stat. 1465.

<sup>4</sup> The *Social Security Act*, §§ 1601-1637, 42 U.S.C. §§ 1381-1383f.

<sup>5</sup> 20 C.F.R. §§ 404.1601 et seq. and 416.1001 et seq.

<sup>6</sup> 31 C.F.R. § 205.1 et seq.

<sup>7</sup> *Cash Management Improvement Act of 1990*, Pub. L. No. 101-453, 104 Stat. 1058 (amending 31 U.S.C. §§ 6501 and 6503).

*Indian Tribal Governments.* At the end of each quarter of the Fiscal Year (FY), each DDS submits a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) to account for program disbursements and unliquidated obligations.

## SCOPE

To accomplish our objectives, we reviewed the administrative costs the New York Division of Disability Determinations (DDD) reported on its Forms SSA-4513 for FYs 2004 and 2005. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions and determine whether they were allowable under OMB Circular A-87, and appropriate, as defined by SSA's Program Operations Manual System.

We also:

- Reviewed applicable Federal laws, regulations and pertinent parts of Program Operations Manual System, DI 39500, *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by DDD and draw down of SSA funds.
- Interviewed staff at the DDD and SSA's Regional Office.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Verified the reconciliation of official State accounting records to the administrative costs reported by DDD on Forms SSA-4513 for FYs 2004 and 2005.
- Examined the administrative expenditures (personnel, medical service, and all other non-personnel costs) incurred and claimed by DDD for FYs 2004 and 2005 on Forms SSA-4513.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Reviewed the State of New York Single Audit reports issued in 2004 and 2005.
- Conducted limited general control testing—which encompassed reviewing the physical access security within the DDD.

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 audit testing on selected data elements in the electronic data files.

We performed our audit at the DDD in Albany and New York, New York, and the Office of Audit in New York, New York, from September through December 2006.

We conducted our audit in accordance with generally accepted government auditing standards.

## **METHODOLOGY**

Our sampling methodology encompassed three of the four general areas of costs as reported on Forms SSA-4513: (1) personnel, (2) medical, and (3) all other non-personnel costs. Indirect cost was not part of this audit and will be reviewed at a later date. We also conducted physical security reviews at both the Albany and New York (Manhattan) locations. We obtained computerized data from the DDD for FYs 2004 and 2005 for use in statistical sampling. Also, we reviewed general security controls the DDD had in place.

### **Personnel Costs**

We sampled 100 employee salary items from 1 randomly selected pay period in FY 2005. The sample of 100 employees consisted of 50 salaried employees directly related to the standard operations of the DDD and 50 medical doctors. We tested regular and overtime payroll and hours for each individual selected. We verified that approved time records were maintained and supported the hours worked. We tested payroll records to ensure the DDD correctly paid employees and adequately documented these payments. In addition, we ensured the doctors had valid medical licenses.

We reviewed all four medical consultants on contract for one randomly selected pay period in FY 2005. These medical consultants were individuals who were contracted out as speech pathologists through an outside vendor. We tested whether the medical consultants were paid in accordance with the approved contract. We also ensured that they had valid licenses to perform their duties.

### **Medical Costs**

We sampled 100 medical evidence of records and consultative examination records (50 items from each FY) using a proportional random sample. We determined whether sampled costs were properly reimbursed.

### **Indirect Costs**

Indirect cost was not part of our review. However, we did analyze computer purchases made by the DDD of 708 21-inch monitors. The results of this review were made available in a separate memorandum issued on January 12, 2007.

## **All Other Non-Personnel Costs**

We stratified all other non-personnel costs into nine categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing Maintenance, (4) Equipment Purchases and Rental, (5) Communications, (6) Applicant Travel, (7) DDS Travel, (8) Supplies, and (9) Miscellaneous. We selected a stratified random sample of 50 items from each FY based on the percentage of costs in each category to total 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) Intrusion Detection, (3) Key Management, (4) Internal Office Security, (5) Equipment Rooms, (6) Security Plan, (7) Continuity of Operations, and (8) Other Security Issues. We determined whether the general security controls the DDS had in place were satisfactory.

## **Appendix C**

# **Schedule of Total Costs Reported on Forms SSA-4513—*State Agency Reports of Obligations for Social Security Administration Disability Programs***

### **New York Division of Disability Determinations**

<b>FISCAL YEARS (FY) 2004 and 2005 COMBINED</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	182,155,822	141,603	182,297,425
Medical	56,738,359	530,137	57,268,496
Indirect *	15,267,533	12,296,274	27,563,807
All Other	32,056,871	-757,520	31,299,351
<b>TOTAL</b>	<b>286,218,585</b>	<b>12,210,494</b>	<b>298,429,079</b>

<b>FY 2004</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	92,425,417	21,399	92,446,816
Medical	27,301,404	30,066	27,331,470
Indirect *	8,904,203	4,778,282	13,682,485
All Other	16,335,423	-1,381,326	14,954,097
<b>TOTAL</b>	<b>144,966,447</b>	<b>3,448,421</b>	<b>148,414,868</b>

<b>FY 2005</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	89,730,405	120,204	89,850,609
Medical	29,436,955	500,071	29,937,026
Indirect *	6,363,330	7,517,992	13,881,322
All Other	15,721,448	623,806	16,345,254
<b>TOTAL</b>	<b>141,252,138</b>	<b>8,762,073</b>	<b>150,014,211</b>

\* We did not review indirect costs as part of this audit.

## Agency Comments



### SOCIAL SECURITY

#### **MEMORANDUM**

**Refer To:** S2D2G5

**Date:** May 11, 2007

**To:** Inspector General

**From:** Regional Commissioner  
New York

**Subject:** Administrative Costs Claimed by the New York Division of Disability Determinations  
(A-02-07-17046) - REPLY

I appreciate the opportunity to review the attached draft report. I am pleased that the New York (NY) Division of Disability Determinations (DDD) was found to have effective internal controls over the accounting and reporting of administrative costs, that all disbursements charged to the Social Security Administration were allowable and properly allocated and that funds were properly drawn for fiscal years (FYs) 2004 and 2005.

The two recommendations outlined in the draft report are reasonable and will assist us in further improving the security and safety controls that are already in place.

If members of your staff have any questions concerning this correspondence, they may be directed to Gene Purk, (212) 264-7283 in the Center for Disability.

/s/  
Beatrice M. Disman

## ***Appendix E***

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# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Tim Nee, Director, (212) 264-5295

Vicki Abril, Audit Manager, (212) 264-0504

### ***Acknowledgments***

In addition to those named above:

Abraham Pierre, Auditor

Stephen L. Liebman, Senior Auditor

James Kim, Program Analyst

For additional copies of this report, please visit our web site at [www.ssa.gov/oig](http://www.ssa.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-02-07-17046.

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Social Security Advisory Board

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## **Office of Audit**

OA conducts and/or supervises 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 and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

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OI conducts and coordinates investigative activity 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 OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

## **Office of the Chief Counsel to the Inspector General**

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

## **Office of Resource Management**

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