



SOCIAL SECURITY

MEMORANDUM

Date: September 4, 2003

Refer To:

To: Peter D. Spencer
Regional Commissioner
San Francisco

From: Assistant Inspector General
for Audit

Subject: Administrative Costs Claimed by the Hawaii Disability Determination Services
(A-09-03-13012)

The attached final report presents the results of our audit. Our objectives were to evaluate the Hawaii Disability Determination Services' internal controls over the accounting and reporting of administrative costs, determine whether costs claimed were allowable and properly allocated, reconcile funds drawn down with claimed costs, and assess the electronic data processing general controls environment.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me at (410) 965-9700.

Steven L. Schaeffer

Attachment

cc:

Lillian B. Koller, Director, Hawaii Department of Human Services
Cynthia Lefever, Administrator, Hawaii Disability Determination Branch
Lenore R. Carlson, Associate Commissioner, Office of Disability Determinations
Jeff Hild, Deputy Associate Commissioner, Office of Disability Determinations
Candace Skurnik, Director, Management Analysis and Audit Program Support Staff

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

September 2003

A-09-03-13012

AUDIT REPORT



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.
- 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

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.

Executive Summary

OBJECTIVE

The objectives of our audit of the Hawaii Disability Determination Services were to (1) evaluate internal controls over the accounting and reporting of administrative costs, (2) determine if costs claimed were allowable and properly allocated, (3) reconcile funds drawn down with claimed costs, and (4) assess the electronic data processing general controls environment.

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 in accordance with Federal regulations. 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, 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.

RESULTS OF REVIEW

Our review of administrative costs disclosed that the Hawaii Department of Human Services (HI-DHS) had overstated its disbursements by \$417,002 for Fiscal Years (FY) 1999 through 2002. This occurred because HI-DHS charged unallowable indirect and personnel costs to SSA's programs. We also found that HI-DHS had overstated its unliquidated obligations by \$218,069 for FYs 1999 through 2001. As a result, HI-DHS overreported its total obligations to SSA by \$635,071. In addition, HI-DHS needs to improve its access controls over computer security.

RECOMMENDATIONS

We recommend that SSA instruct HI-DHS to refund \$417,002 in unallowable costs. We also recommend that SSA direct HI-DHS to improve its controls and procedures over the reporting of administrative costs and systems access security.

AGENCY COMMENTS AND OIG RESPONSE

SSA generally agreed with our recommendations. See Appendices C and D for the full text of comments from SSA and HI-DHS. We concur with SSA's comments.

Table of Contents

	Page
INTRODUCTION.....	1
RESULTS OF REVIEW	4
Indirect Costs	4
Medical Costs.....	5
Personnel Costs.....	6
Unliquidated Obligations	6
Incorrect Fiscal Year Payments	7
Access Controls	8
CONCLUSIONS AND RECOMMENDATIONS.....	9
OTHER MATTERS	11
APPENDICES	
Appendix A – Hawaii Disability Determination Services Reported Versus Allowed Costs	
Appendix B – Statewide and Departmental Indirect Costs	
Appendix C – SSA Comments	
Appendix D – HI-DHS Comments	
Appendix E – OIG Contacts and Staff Acknowledgments	

Acronyms

Act	Social Security Act
CE	Consultative Examination
CFR	Code of Federal Regulations
CPA	Certified Public Accountant
DDS	Disability Determination Services
DI	Disability Insurance
FAMIS	Financial Accounting and Management Information System
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
HI-DDS	Hawaii Disability Determination Services
HI-DHS	Hawaii Department of Human Services
MER	Medical Evidence of Record
OD	Office of Disability
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
Treasury	Department of the Treasury
USC	United States Code

Introduction

OBJECTIVE

The objectives of our audit of the Hawaii Disability Determination Services (HI-DDS) were to (1) evaluate internal controls over the accounting and reporting of administrative costs, (2) determine if costs claimed were allowable and properly allocated, (3) reconcile funds drawn down with claimed costs, and (4) assess the electronic data processing general controls environment.

BACKGROUND

The Disability Insurance (DI) program was established in 1954 under title II of the Social Security Act (Act). The DI program provides benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted the Supplemental Security Income (SSI) program under title XVI of the Act. The SSI program provides benefits to financially needy individuals who are aged, blind, or disabled.

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 DI and SSI are performed by disability determination services (DDS) in each State in accordance with Federal regulations.¹ 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, 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 regulations² and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act of 1990.³ An advance or reimbursement for costs under the program must comply with the Office of Management and Budget's (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the fiscal year (FY), each DDS submits a Form SSA-4513, *State*

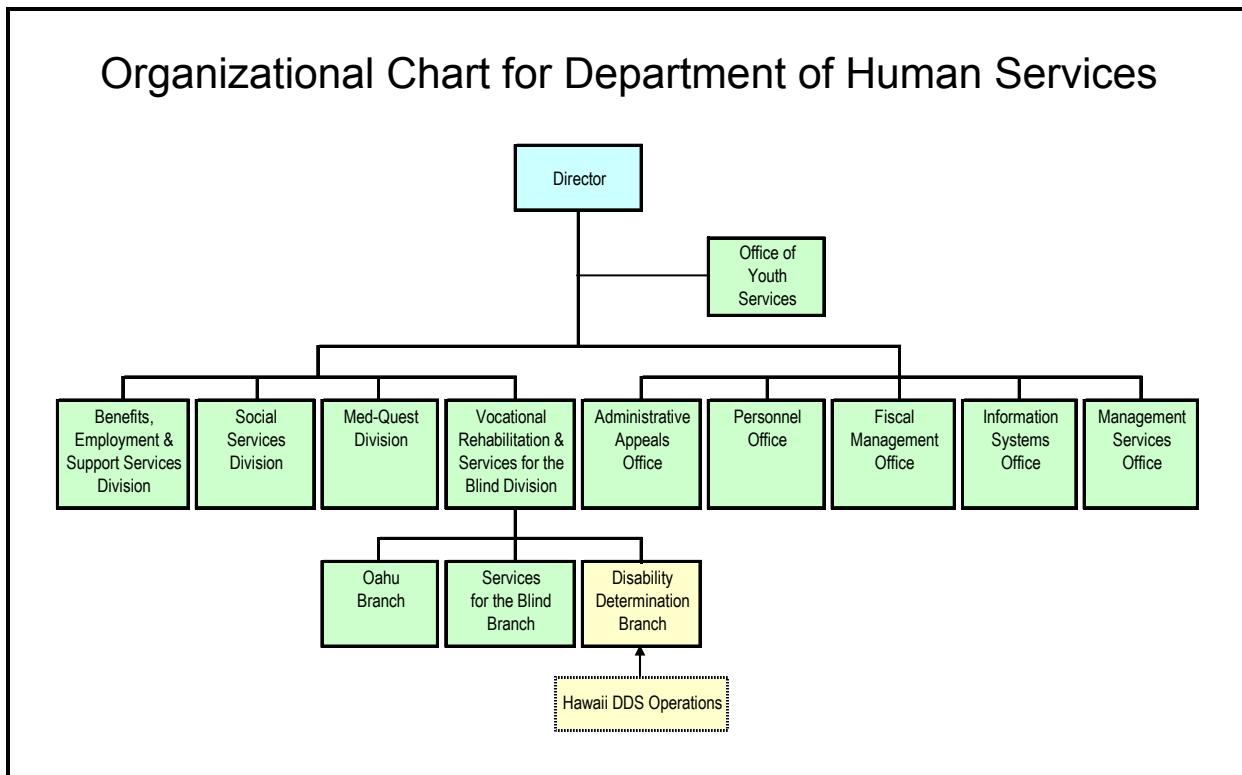
¹ 20 C.F.R. §§ 404.1601 et. seq. and 404.1001 (2003).

² 31 C.F.R. § 205 (2003).

³ Pub. L. No. 101-453, 31 U.S.C. § 6501 (2003).

Agency Report of Obligations for SSA Disability Programs, to account for program disbursements and unliquidated obligations.

HI-DDS is a component within the Hawaii Department of Human Services (HI-DHS), Vocational Rehabilitation and Services for the Blind Division. For FYs 1999 through 2001, HI-DDS had about 60 employees and an authorized budget of \$13.45 million for administrative costs. As of September 30, 2002, HI-DHS reported total disbursements of \$13.42 million and \$31,875 in unobligated funds. The following chart provides an overview of the organizational structure of HI-DHS.



SCOPE AND METHODOLOGY

We reviewed the administrative costs reported by HI-DHS on its Form SSA-4513 for FYs 1999 through 2001. However, one of our findings affected the costs claimed in FY 2002. Therefore, we expanded the audit period to fully develop the finding. For the items tested, we reviewed HI-DHS' compliance with applicable laws and regulations over the allowability of administrative costs and draw down of Federal funds.

To accomplish our objectives, we:

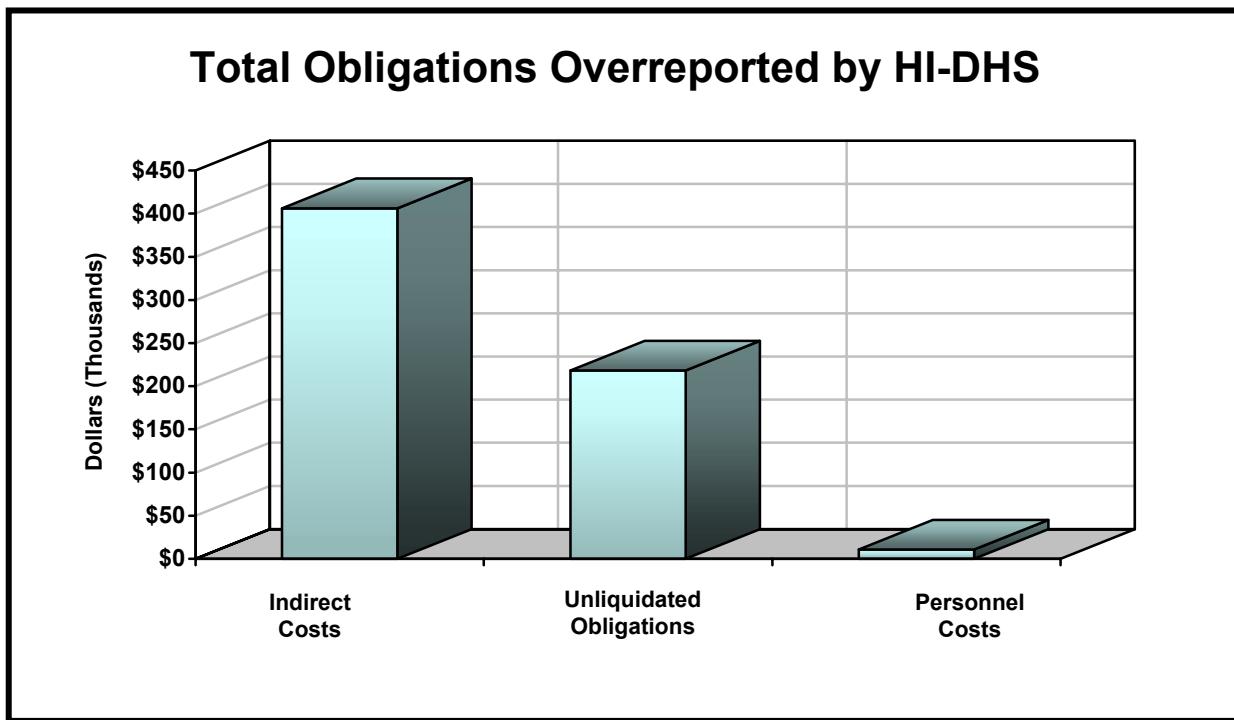
- Reviewed OMB Circular A-87, Code of Federal Regulations, United States Code, SSA's Program Operations Manual System (POMS), and HI-DHS' Cost Allocation Plan;

- Reviewed HI-DHS' policies and procedures related to personnel, medical, indirect, and nonpersonnel costs;
- Interviewed employees from SSA, HI-DHS, HI-DDS, and Nishihama and Kishida, Certified Public Accountants (CPA);
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures;
- Examined the administrative costs incurred and claimed by HI-DHS for personnel, medical, indirect, and nonpersonnel costs during FYs 1999 through 2001;
- Selected a random sample of personnel, medical, and nonpersonnel costs; and
- Reconciled the accounting records to the costs reported by HI-DHS on its Form SSA-4513 for FYs 1999 through 2001.

We performed audit work at HI-DHS, HI-DDS, and Nishihama and Kishida, CPAs in Honolulu, Hawaii. We also performed audit work at the SSA regional office in Richmond, California. Field work was conducted between September 2002 and March 2003. The entity audited was the Office of Disability (OD) within the Office of the Deputy Commissioner for Disability and Income Security Programs. We conducted our audit in accordance with generally accepted government auditing standards.

Results of Review

Generally, HI-DHS had adequate controls over the \$13.42 million in administrative costs claimed for reimbursement during the 3-year audit period ended September 30, 2001. In addition, HI-DDS exercised adequate controls within its general electronic data processing environment to provide reasonable safeguards of data in the system. However, our review disclosed that HI-DHS overstated its disbursements by \$417,002 for FYs 1999 through 2002. This occurred because HI-DHS charged unallowable indirect, medical, and personnel costs to SSA's programs. We also found that HI-DHS had overstated its unliquidated obligations by \$218,069 for FYs 1999 through 2001. As a result, HI-DHS overreported its total obligations to SSA by \$635,071. Furthermore, HI-DHS needs to improve its access controls over computer security. The following chart summarizes the total obligations overreported by HI-DHS.



INDIRECT COSTS

HI-DHS overstated its statewide and departmental indirect costs that were allocated to SSA's programs. We found that HI-DHS unnecessarily established encumbrances for the payment of medical evidence of records (MER), which resulted in an inequitable distribution of indirect costs to SSA. As a result, SSA reimbursed HI-DHS for \$406,258 of unallowable costs for FYs 1999 through 2002.

Federal cost standards require all programs that benefit from expenditures in an indirect cost pool to receive an appropriate allocation of indirect costs.⁴ Each quarter, HI-DHS allocates statewide indirect costs from the Hawaii Department of Accounting and General Services and Hawaii Department of Budget and Finance. In addition, HI-DHS allocates departmental indirect costs from its Fiscal Management Office, Pre-Audit Unit. These costs are allocated based on the ratio of transactions for each program divided by the transactions for all programs. There are two types of transactions: encumbrances and expenditures. An encumbrance is established to set aside funds for the future payment of goods or services while an expenditure is recorded when the actual payment is disbursed.

HI-DDS orders MERs to support its disability determinations. After HI-DDS submits a request for the claimant's records, the vendor sends the MER, along with the invoice, to HI-DDS. At that time, HI-DDS generates a purchase order and submits it, along with the invoice, to HI-DHS. Although HI-DHS receives the purchase order and invoice concurrently, it establishes an encumbrance and expenditure before paying the vendor. Since the invoice is paid when the purchase order is received, it is not necessary to record an encumbrance. This practice results in two separate transactions for the payment of MERs and is inconsistent with the Med-Quest (that is, Medicaid) program, in which HI-DHS only records one transaction for the payment of MERs.

Because HI-DHS overstated the number of MER transactions for SSA's programs, the percentage of indirect costs allocated to the Agency was higher than appropriate. Using data from the Financial Accounting and Management Information System (FAMIS), we determined that HI-DHS misallocated \$406,258 of statewide and departmental indirect costs for FYs 1999 through 2002. Of this amount, \$253,345 represented statewide indirect costs and \$152,913 represented departmental indirect costs that should have been allocated to non-SSA programs (see Appendix B). During our audit, HI-DHS agreed to discontinue its practice of establishing encumbrances for the payment of MERs.

MEDICAL COSTS

This finding was deleted from the report after considering Agency comments to our draft report.

⁴ OMB Circular A-87, Attachment A, C.3.b.

PERSONNEL COSTS

HI-DDS overcharged personnel costs for medical consultants to SSA's programs. Because of clerical errors, HI-DDS overstated the number of hours worked by medical consultants which, in turn, overstated the personnel costs charged to SSA's programs. As a result, SSA reimbursed HI-DHS for \$10,744 of unallowable costs for July 1999 through March 2001.

SSA's procedures require all State agencies to exercise reasonable care in the expenditure of funds necessary to make disability determinations. These funds must be effectively and economically used in carrying out the provisions of the disability program.⁵

Medical consultants are independent contractors who provide support services to the HI-DDS in the disability determination process. Before April 2001, medical consultants prepared daily time logs manually and forwarded them to HI-DDS at the end of the month. HI-DDS calculated the total hours worked for each medical consultant and submitted a summary report for all medical consultants to HI-DHS for payment.

Based on our review of daily time logs, we found that HI-DDS miscalculated the number of hours worked by medical consultants for July 1999 through March 2001. This resulted in \$10,744 for overstated personnel costs that were charged to SSA's programs. In April 2001, HI-DDS implemented an electronic time clock to replace the daily time logs. Our review did not identify any errors in the total hours worked by medical consultants from April to June 2001.

UNLIQUIDATED OBLIGATIONS

HI-DHS reported unliquidated obligations for medical costs above the supporting expenditures. Unliquidated obligations are cost commitments for goods and services that have not been paid. However, HI-DHS relied on inaccurate data to estimate its unliquidated obligations for medical costs. As a result, HI-DHS overstated its unliquidated obligations by \$218,069 for FYs 1999 through 2001. Since HI-DHS retained the unliquidated obligations until after the end of the FY, SSA was unable to use these funds for other needs in administering its disability program.

SSA's procedures state that valid unliquidated obligations should be supported by documents and records describing the nature of obligations and supporting amounts recorded. State agencies should review unliquidated obligations at least once each month to cancel those no longer valid. In addition, State agencies are required to provide narrative reports on the status of unliquidated obligations with the quarterly Form SSA-4513.⁶ The following table summarizes the unliquidated obligations above the supporting costs for FYs 1999 through 2001.

⁵ POMS, section DI 39506.001.

⁶ POMS, section DI 39506.203.

Unliquidated Obligations for Medical Costs

FY	Unliquidated Obligations at End of FY	Valid Obligations	Unsupported Obligations
1999	\$301,726	\$222,535	\$79,191
2000	237,378	164,062	73,316
2001	158,920	93,358	65,562
Totals	<u>\$698,024</u>	<u>\$479,955</u>	<u>\$218,069</u>

HI-DHS obtained data from FAMIS to estimate the unliquidated obligations for medical costs. However, HI-DHS stated that it did not always deobligate funds for cancelled medical appointments. Since funds are obligated when the appointments are scheduled, they should be deobligated when the appointments are cancelled. As a result, HI-DHS overstated its unliquidated obligations by \$218,069 for FYs 1999 through 2001. HI-DHS subsequently deobligated these amounts by September 30, 2002.

INCORRECT FISCAL YEAR PAYMENTS

HI-DDS charged payments to the incorrect FYs, although the costs were otherwise acceptable for reimbursement by SSA. This occurred because HI-DDS did not ensure that its obligations were always established in a timely and accurate manner. As a result, HI-DHS incorrectly reported \$9,944 in administrative costs for FYs 1999 through 2001.

Federal laws state that the balance of an appropriation or fund limited for obligation to a definite period is available only for expenditures properly incurred during the period of availability.⁷ The appropriation or fund is not available for expenditures beyond the period otherwise authorized by law.⁸

HI-DDS generates purchase orders to establish valid obligations for goods and services ordered. For medical and nonpersonnel costs, we reviewed a random sample of 298 invoices during FYs 1999 through 2001. Of this amount, we found that HI-DDS had charged 22 invoices (7.4 percent) to the incorrect FY, resulting in \$9,944 of misreported costs.

In some instances, HI-DDS ordered goods and services in one FY but did not generate the purchase order until the invoice was received in the following FY. In

⁷ 31 U.S.C. § 1502(a) (2003).

⁸ See *id.*

other instances, HI-DDS generated the purchase order in one FY even though the goods and services were not actually ordered until the following FY. Improper reporting of funds between FYs prevents SSA from accurately monitoring the status of HI-DDS' expenditures and unexpended appropriations.

ACCESS CONTROLS

HI-DDS did not implement an automatic lock to secure all employee workstations after a period of nonuse. Our review disclosed that HI-DDS employees may deactivate or remove the automatic lock from their workstations and adjust the length of time before it is activated. As a result, HI-DDS needs to strengthen its systems controls to protect against the unauthorized disclosure, manipulation, or destruction of sensitive data.

SSA's procedures require the DDS to install an automatic lock on all Intelligent Workstation/Local Area Network workstations.⁹ Specifically, the DDS should use a standardized screensaver to automatically lock the workstation when not in use for 20 minutes. Employees must enter a personal identification number or password to reactivate their access to the workstation. In addition, all employees are required to lock or log off their workstations before leaving them unattended.¹⁰

During our audit, we observed that a number of HI-DDS workstations did not contain an automatic lock. This undermines the security of the system and compromises the integrity of sensitive data. In addition, we observed that a number of HI-DDS employees did not lock or log off their workstations before leaving their desks. Since employee workstations were unsecured and unattended, there is an increased risk that data or programs may be altered, deleted, or replaced.

We believe that HI-DDS should improve its procedures to preclude unauthorized access to idle workstations, thereby reducing the potential for fraud, waste, and abuse. In August 2002, the SSA regional office issued a memorandum to require HI-DDS to implement SSA's systems policy, including an automatic lock and uniform configuration settings for each workstation.

⁹ SSA, *Systems Security Bulletin*, October 13, 1999, and *Systems Security Handbook*, chapter 10, section B.

¹⁰ See *id.*

Conclusions and Recommendations

Our review of administrative costs disclosed that HI-DHS had overstated its disbursements by \$417,002 for FYs 1999 through 2002. This occurred because HI-DHS charged unallowable indirect, medical, and personnel costs to SSA's programs. We also found that HI-DHS had overstated its unliquidated obligations by \$218,069 for FYs 1999 through 2001. As a result, HI-DHS overreported its total obligations to SSA by \$635,071. In addition, HI-DHS needs to improve its access controls over computer security.

We recommend that SSA:

1. Instruct HI-DHS to refund \$406,258 in unallowable statewide and departmental indirect costs for FYs 1999 through 2002.
2. Ensure HI-DHS discontinues its practice of establishing encumbrances for the payment of MERs.
3. Work with OD to obtain prior approval for the payment of fees for missed CE appointments. **BASED UPON AGENCY COMMENTS, THIS RECOMMENDATION IS BEING WITHDRAWN.**
4. Instruct HI-DHS to refund \$10,744 in unallowable personnel costs for medical consultants for July 1999 through March 2001.
5. Ensure HI-DHS improves the methods used to record unliquidated obligations for medical costs so that future estimates more accurately reflect the amounts needed for valid expenditures.
6. Determine whether expenditures claimed on the Form SSA-4513 for FYs 1999 through 2001 were claimed in the proper FY and reclassify expenditures as appropriate.
7. Ensure HI-DDS develops controls to require employees to establish obligations and report expenditures in the correct FY.
8. Ensure HI-DDS establishes procedures to require employees to lock or log off their workstations before leaving them unattended.
9. Verify whether HI-DDS implemented an automatic lock to safeguard all employee workstations.

AGENCY COMMENTS

SSA agreed with our recommendations, except for numbers one and three. While supporting recommendation one the Agency noted that, based on information obtained during the exit conference, HI-DHS should be allowed to recover an equitable portion of departmental indirect costs. SSA staff noted that recommendation three should be deleted because the SSA regional office approved a plan from HI-DDS to phase out payments for missed CE appointments. Unfortunately, we were not provided the approval before issuing the draft audit report.

OIG RESPONSE

We concur with SSA's comments. We disagree with HI-DHS' comments on recommendation one regarding the numbers of MER encumbrances and its calculation of a reduced cost disallowance. We found that every MER was encumbered and based our cost adjustments on the actual numbers of MERs. Nonetheless, we agree that eliminating all MER encumbrances in allocating departmental indirect costs is not equitable to the State because of the approved methodology. The determination of a reasonable allocation of indirect costs to HI-DDS is beyond our audit scope and is a matter of negotiation with SSA. Regarding recommendation three, the regional office concurred that HI-DHS took appropriate action to phase out the payment of fees for missed CE appointments. Based on additional evidence from the regional office, we deleted the finding and related recommendation from the report.

Other Matters

AUTOMATING THE PAYMENT OF DISABILITY CLAIMS

During our audit, we found that HI-DDS used the Versa computer program to process disability claims and HI-DHS used FAMIS to process disability payments. For each claim, HI-DDS entered the claimant, vendor, medical service, cost, and related data into Versa. HI-DHS also entered the same data into FAMIS and reviewed the supporting documentation for the claim. Linking Versa and FAMIS could expedite the payment of disability claims and strengthen the data integrity between the two systems, thereby reducing the potential for duplicate payments.

Moreover, the workload savings from linking the two programs could result in potential cost savings to SSA's programs. We recognize that HI-DDS and HI-DHS may incur significant costs to further automate the processing of disability payments. Nevertheless, SSA and HI-DDS employees were in favor of evaluating the feasibility of linking Versa and FAMIS. We believe this issue warrants further consideration as SSA continues in its ongoing effort to improve DDS operations in Hawaii.

Appendices

Appendix A

Hawaii Disability Determination Services Reported And Allowable Costs

Table 1 – Administrative Costs for Fiscal Year (FY) 1999

Category	Reported Costs	Audit Adjustments	Allowable Costs
Personnel	\$2,605,730	(\$2,222)	\$2,603,508
Medical	897,883	0	897,883
Indirect	378,141	(99,880)	278,261
Nonpersonnel	662,047	0	662,047
Total	\$4,543,801	(\$102,102)	\$4,441,699

Table 2 – Administrative Costs for FY 2000

Category	Reported Costs	Audit Adjustments	Allowable Costs
Personnel	\$2,377,898	(\$6,443)	\$2,371,455
Medical	1,033,427	0	1,033,427
Indirect	445,094	(125,346)	319,748
Nonpersonnel	696,831	0	696,831
Total	\$4,553,250	(\$131,789)	\$4,421,461

Table 3 – Administrative Costs for FY 2001

Category	Reported Costs	Audit Adjustments	Allowable Costs
Personnel	\$2,389,026	(\$2,079)	\$2,386,947
Medical	921,185	0	921,185
Indirect	412,144	(103,484)	308,660
Nonpersonnel	599,313	0	599,313
Total	\$4,321,668	(\$105,563)	\$4,216,105

Table 4 – Administrative Costs for FY 2002¹

Category	Reported Costs	Audit Adjustments	Allowable Costs
Personnel	\$2,398,099	\$0	\$2,398,099
Medical	952,451	0	952,451
Indirect	367,487	(77,548)	289,939
Nonpersonnel	540,043	0	540,043
Total	\$4,258,080	(\$77,548)	\$4,180,532

¹ For FY 2002, we limited our review to indirect costs only.

Statewide and Departmental Indirect Costs

Each quarter, the Hawaii Disability Determination Services (HI-DDS) receives an allocation of statewide indirect costs from the Hawaii Department of Accounting and General Services and Hawaii Department of Budget and Finance. In addition, HI-DDS receives an allocation of departmental indirect costs from the Hawaii Department of Human Services (HI-DHS), Fiscal Management Office, Pre-Audit Unit. These costs are allocated based on the ratio of transactions (that is, encumbrances and expenditures) for each program divided by the total number of transactions processed through the Financial Accounting and Management Information System (FAMIS).

Our review disclosed that HI-DHS unnecessarily established encumbrances for the payment of medical evidence of records (MER), which increased the percentage of statewide and departmental indirect costs allocated to the Social Security Administration (SSA). To quantify our findings, we obtained (1) accounting reports of paid expenditures and outstanding encumbrances from FAMIS for Fiscal Years (FY) 1999 and 2000, and (2) data extracts of all expenditures and encumbrances processed through FAMIS for January 2000 through September 2002.

To identify the number of encumbered MER transactions for FYs 1999 through 2002, we used the following methodology:

- From October 1998 to September 1999, we used the accounting reports to determine the average number of encumbered MER transactions per quarter. Based on HI-DHS' policies and procedures, we concluded that the number of paid MER expenditures equaled the number of encumbered MER transactions.
- From October 1999 to December 1999, we used the accounting reports to identify the total number of encumbered MER transactions for FY 2000. In addition, we used the data extracts to identify the actual number of encumbered MER transactions from January 2000 to September 2000. We compared these amounts to determine the number of encumbered MER transactions from October 1999 to December 1999.
- From January 2000 to September 2002, we used the data extracts to determine the actual number of encumbered MER transactions per quarter.

For each quarter, we subtracted the number of encumbered MER transactions from the number of transactions for HI-DDS and the total number of transactions for all programs. Based on the revised transaction counts, we recalculated the percentage and amount of indirect costs allocable to SSA's programs. The following tables provide a breakdown of the statewide and departmental indirect costs questioned by our audit.

Table 1 – Statewide Indirect Costs

Quarter Ended	Claimed Costs	Allowable Costs	Unallowable Costs
December 1998	\$36,435	\$22,810	\$13,625
March 1999	39,055	27,373	11,682
June 1999	36,387	24,341	12,046
September 1999	77,680	56,449	21,231
December 1999	71,064	50,244	20,820
March 2000	64,528	42,032	22,496
June 2000	69,042	49,377	19,665
September 2000	82,126	57,303	24,823
December 2000	65,180	49,204	15,976
March 2001	73,582	52,413	21,169
June 2001	64,721	42,674	22,047
September 2001	35,513	25,681	9,832
December 2001	30,923	21,936	8,987
March 2002	35,190	26,534	8,656
June 2002	39,093	28,010	11,083
September 2002	34,854	25,647	9,207
Total	\$855,373	\$602,028	\$253,345

Table 2 – Departmental Indirect Costs

Quarter Ended	Claimed Costs	Allowable Costs	Unallowable Costs
December 1998	\$14,333	\$2,880	\$11,453
March 1999	15,081	5,722	9,359
June 1999	12,234	2,705	9,529
September 1999	17,547	6,592	10,955
December 1999	11,332	(246)	11,578
March 2000	11,745	3,866	7,879
June 2000	12,338	5,056	7,282
September 2000	18,328	7,525	10,803
December 2000	12,817	4,784	8,033
March 2001	13,735	5,922	7,813
June 2001	13,652	4,749	8,903
September 2001	15,131	5,420	9,711
December 2001	15,513	6,842	8,671
March 2002	18,493	8,847	9,646
June 2002	18,462	8,113	10,349
September 2002	20,348	9,399	10,949
Total	\$241,089	\$88,176	\$152,913

Appendix C

SSA Comments



SOCIAL SECURITY

MEMORANDUM

Date: July 23, 2003

Refer To: S2D9G4

To: Assistant Inspector General
for Audit

From: Assistant Regional Commissioner
Management and Operations Support
San Francisco

Subject: Audit of Administrative Costs Claimed by the Hawaii Disability Determination Services
(A-09-03-13012)--REPLY

Thank you for the opportunity to review the draft report of your audit of the Hawaii Disability Determination Services. Per your request, we are providing an attachment with specific written comments for each of the nine recommendations contained in the draft report.

If you have any questions regarding our comments, please call me. If staff have any questions, they may call Diane Trewin in the Center for Disability at (510) 970-8295.

/s/
Ron Sribnik for
Patrick E. Sheehan

Attachment

Regional Office Comments on the Hawaii DDS Draft Audit Report

Recommendation 1: Instruct HI-DHS to refund \$406,258 in unallowable statewide and departmental indirect costs for FYs 1999 through 2002.

Comment: We generally support this recommendation but request an adjustment in the refund amount based on information shared during the exit conference discussion. During the exit conference, representatives of the State suggested and OIG representatives confirmed that the departmental indirect cost portion of this recommendation would be allowable under an equitable indirect cost plan that was not based on transactions. We believe the recommended refund amount should only be the amount that would not be chargeable under an equitable plan.

Recommendation 2: Ensure HI-DHS discontinues its practice of establishing encumbrances for the payment of MERs.

Comment: We find this recommendation reasonable.

Recommendation 3: Work with OD to obtain prior approval for the payment of fees for missed CE appointments.

Comment: Note, OD is now the Office of Disability Determinations (ODD).

The DDS no longer pays fees for missed CE appointments. The DDS notified the Region of a reasonable plan to phase out the payments for missed CE appointments. The Region supported this plan. Generally, absent specific instructions otherwise, this type of decision would be left to the Region. Subsequent to the release of the draft audit report, we provided OIG staff a copy of the region's timely notification to ODD of Hawaii's plan. (We regret that a copy of the notification was not provided before the release of the draft audit report.) Since we were notifying ODD of an existing practice that would be phased out, as opposed to a request to begin a new process to pay for no-shows, we would not expect a response from ODD unless they disagreed with the plan. We recommend that this recommendation be removed.

Recommendation 4: Instruct HI-DHS to refund \$10,744 in unallowable personnel costs for medical consultants for July 1999 through March 2001.

Comment: We find this recommendation reasonable.

Recommendation 5: Ensure HI-DHS improves the methods used to record unliquidated obligations for medical costs so that future estimates more accurately reflect the amounts needed for valid expenditures.

Comment: We find this recommendation reasonable.

Recommendation 6: Determine whether expenditures claimed on the Form SSA-4513 for FYs 1999 through 2001 were claimed in the proper FY and reclassify expenditures as appropriate.

Comment: We find this recommendation reasonable.

Recommendation 7: Ensure HI-DDS establishes procedures to require employees to establish obligations and report expenditures in the correct FY.

Comment: We find this recommendation reasonable.

Recommendation 8: Ensure HI-DDS establishes procedures to require employees to lock or log off their workstations before leaving them unattended.

Comment: We find this recommendation reasonable.

Recommendation 9: Verify whether HI-DDS implemented an automatic lock to safeguard all employee workstations.

Comment: We agree. As of June 2003, all employee workstations have the SSA standard automatic lock installed.

Appendix D

HI-DHS Comments

Mr. Steven L. Schaeffer
Assistant Inspector General for Audit
6401 Security Boulevard
Room 4-L-1 Operations Building
Baltimore, Maryland 21235

Dear Mr. Schaeffer:

As requested, enclosed are our comments to your draft report "Administrative Costs Claimed by the Hawaii Disability Determination Services" (A-09-03-13012). We appreciate the opportunity to present our views on the facts and recommendations.

If there are any questions, please call Cynthia Lefever, Disability Determination Branch Administrator, at (808) 973-2244 or Derek Oshiro, Chief Accountant at (808) 586-5630.

Sincerely,

Lillian B. Koller, Esq.
Director

Enclosure

AN EQUAL OPPORTUNITY AGENCY

RESPONSE AND COMMENTS
Administrative Costs Claimed by the Hawaii Disability Determination Services
August 12, 2003

INDIRECT COST

The encumbrance process ensures that financial obligations incurred by a program will be adequately funded when the payments for these obligations are issued. It is especially important for programs that generate a high volume of payment transactions against relatively restrictive and fixed fund balances. Such is the case for the HI-DDS program. This arrangement has served to be effective in monitoring and managing the program's preset quarterly allotments.

The HI-DDS' annual appropriation is submitted as a part of the state budget by the Governor to the state legislature for approval prior to the state fiscal year. The amount appropriated may at times be less than the federal grant award to HI-DDS. The annual appropriation is allotted to each quarter of the state fiscal year according to the program's expenditure plan. If the quarterly allotments are deemed to be insufficient, a formal request to increase the HI-DDS' state appropriation, and in turn their quarterly allotment, is submitted through the Department of Budget & Finance to the Governor's Office for approval. This process normally takes two to three weeks, and consequently may result in additional delays in issuing client and vendor payments.

One of the financial objectives of the Program is to ensure that state quarterly allotments are managed properly so all program obligations are paid on a timely basis. Although MERs are relatively small payments and constitute approximately 6% of the total federal grant that HI-DDS spends, such expenditures can cause an allotment deficit if they are not monitored. Without any available allotment balance, all program payments (consultative examinations, medical consultants, equipment, etc.) will be suspended. This will result in late payments and accompanying interest liabilities. By state statute, any invoice not paid within 30 days will be assessed interest, the rate for the September 2003 quarter being 6.25% per annum. Since federal funds cannot be charged interest on late payments, this interest charge will have to be paid by the Vocational Rehabilitation & Services to the Blind Division (VRSBD) state funds.

Recommendation 1

We have reviewed and analyzed the calculations for the unallowed statewide and departmental indirect costs. Historically, out of the 4,500 MERs processed per quarter, about 900 MERs are actually encumbered to reimburse the department's petty cash fund for MER payments issued. Based on our recalculation by eliminating 900 MER encumbrances from each of the affected quarters, the difference between the claimed amount and the revised amount using the reduced MER encumbrances, would be \$55,397 and \$30,436 for the statewide and departmental indirect costs, respectively. Attached is Exhibit A that shows the details of the recalculation.

The Department of Human Services (DHS) uses the state accounting system (FAMIS) as its departmental system. Under FAMIS, accounting transactions include expenditures, journal voucher entries, and posting of allotments as well as encumbrances. The use of encumbrances in the transaction counts to allocate the accounting functions and activities on the departmental and state levels is considered reasonable and in accordance with the cost allocation plan approved by the U.S. Department of Health and Human Services-Division of Cost Allocation. To the best of our knowledge, SSA has not formally communicated to HI-DDS that MER encumbrances would not be acceptable.

Recommendation 2

The termination of the encumbrance practice for MERs may result in a compromised ability to properly manage the allotment balances on a day-to-day basis, especially toward the end of the fiscal quarter when the balances are tight. However, HI-DDS does recognize the benefits relative to manual workload and staff time, by reducing the up-front encumbrance activities. On this basis, we will be exploring the feasibility of processing MER payments directly without adversely affecting the ability to monitor the allotment balances.

Recommendation 3

The DDS verbally requested an exemption to the no-pay policy for missed CE appointments. The request was directed to SSA SFRO and the DDS received verbal permission for the following plan.

- Effective July 2000 the DDS would not pay new vendors for missed CE appointments and payments to existing vendors would be decreased from 50% to 25%.
- Effective July 2002, with a new RFP and contracts, all payments for missed CE's would cease.

This plan was put into effect and no payments for missed CE appointments have been made since July 2002, except for appointments arranged prior to July 2002 (none of which remain outstanding at this point). So this issue is now moot.

Recommendation 4

The DDS does not dispute that errors were probably made by DDS personnel in calculating MC pay. The methodology used at that time to compute MC hours was very tedious and error prone. It would not be practical to recalculate 23 months worth of time sheets nor to expect more accurate results than the initial computations.

While some of the MC's from that time period are still with the DDS, several have left the agency and 2 are now deceased; so some of this money would be unrecoverable in any event. It would not be cost effective to use staff time to do recalculations. As stated in the OIG report, the DDS has since instituted new procedures that are not error prone, so this is not an ongoing problem. The DDS requests that this recommendation not be

implemented. If it is implemented, we will require overtime hours for our staff to perform the recalculations.

Recommendation 5

The DDS itself became aware of the problem of un-liquidated obligations before the arrival of OIG and had already instituted internal monthly reviews of outstanding obligations, so that they could be de-obligated timely. The DDS and HI-DHS offices had also worked together to be sure that the de-obligations were completed timely. Currently de-obligations are done at least once a week. So from the DDS perspective, this issue has been resolved on an ongoing basis.

However, there will always be a certain number of de-obligations that cannot take place until the following fiscal year. Example: In September, a CE is scheduled for November and the funds are obligated. Then in November the claimant misses the CE and its rescheduled for December. The claimant again misses the CE and at this point the funds are de-obligated.

Recommendation 6

For the small amount of error (\$9,944 over a 3-year period) and the amount of time that has passed (2-5 years), it is impractical to attempt to make a determination of the proper fiscal year. This would not be an efficient use of staff time and the DDS requests that this recommendation not be implemented.

Recommendation 7

As stated earlier in regard to un-liquidated obligations, medical services costs will often overlap fiscal years and there is no operational way to avoid this.

However, the DDS has changed internal procedures and administrative personnel since 2001 and improper reporting of administrative costs is no longer occurring.

Recommendation 8

DDS employees have now been instructed to lock or log off their workstations when they leave the office.

Recommendation 9

With the server replacement in 2003, the automatic lock on workstations is now in place.

**Statewide Indirect Costs
DHS - Recalculation**

EXHIBIT A

Qtr Ended	Claimed Amount	Reduce (2) Type Q by 900 Allowable Amt	Difference
09/2002	34,854	32,346	2,508
06/2002	39,093	36,828	2,265
03/2002	36,181	33,805	2,376
12/2001	31,811	29,220	2,591
09/2001	35,513	33,090	2,423
06/2001	64,721	60,440	4,281
03/2001	73,582	68,988	4,594
12/2000	65,180	60,075	5,105
09/2000	82,126	77,959	4,167
06/2000	69,042	64,723	4,319
03/2000	64,528	60,076	4,452
12/1999	71,064	66,485	4,579
09/1999	77,680	73,417	4,263
06/1999	36,387	33,971	2,416
03/1999	39,055	36,711	2,344
12/1998	36,435	33,721	2,714
	857,252	801,855	55,397

**Departmental Indirect Costs
DHS - Recalculation**

Qtr Ended	Claimed Amount	Reduce (2) Type Q by 900 Allowable Amt	Difference
09/2002	20,349	17,680	2,669
06/2002	18,462	16,592	1,870
03/2002	18,493	16,169	2,324
12/2001	15,513	13,328	2,185
09/2001	15,131	13,036	2,095
06/2001	13,652	12,148	1,504
03/2001	13,735	12,262	1,473
12/2000	12,817	10,486	2,331
09/2000	18,622	17,090	1,532
06/2000	12,338	10,919	1,419
03/2000	11,745	10,409	1,336
12/1999	11,038	8,977	2,061
09/1999	22,482	20,038	2,444
06/1999	12,234	10,570	1,664
03/1999	15,081	13,466	1,615
12/1998	14,333	12,419	1,914
	246,025	215,589	30,436

SUMMARY:

Statewide I/C - Difference	55,397
Departmental I/C - Difference	30,436
Total	85,833

Appendix E

OIG Contacts and Staff Acknowledgments

OIG Contacts

Bill Fernandez, Director, Western Audit Division, (510) 970-1739

Jack H. Trudel, Deputy Director, (510) 970-1733

Acknowledgments

In addition to those named above:

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