



SOCIAL SECURITY

MEMORANDUM

Date: May 07, 2004

Refer To:

To: James F. Martin
Regional Commissioner
Chicago

From: Assistant Inspector General
for Audit

Subject: Administrative Costs Claimed by the Michigan Disability Determination Services
(A-05-03-13036)

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

Please provide within 60 days a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me at (410) 965-9700.



Steven L. Schaeffer

Attachment

cc:

Lenore Carlson, Associate Commissioner for Office of Disability Determinations
Jeffrey Hild, Associate Commissioner for Financial Policy and Operations
Candace Skurnik, Director, Management Analysis and Audit Program Support Staff
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Bill Addison, Audit Liaison, Family Independence Agency
Marianne Uдов, Director, Michigan Family Independence Agency

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

May 2004 A-05-03-13036

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

OBJECTIVES

The objectives of our audit were to (1) evaluate the Michigan Disability Determination Services (MI-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed were allowable and properly allocated and funds were properly drawn, and (3) assess the electronic data processing general controls environment. Our review included administrative costs claimed by the MI-DDS for Fiscal Years (FY) 2000 and 2001. At the Social Security Administration's (SSA) request, we expanded our audit period and reviewed office space costs claimed by the MI-DDS through December 2003.

BACKGROUND

Disability determinations under 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.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, the DDS is authorized by SSA to purchase consultative examinations (CE) 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.²

The Michigan Family Independence Agency (MI-FIA) is the MI-DDS's parent agency. The MI-DDS has offices in Lansing, Detroit, Kalamazoo, and Traverse City, Michigan.

RESULTS OF REVIEW

Our review of administrative costs disclosed that MI-DDS claimed unallowable office space costs of \$1,248,415. We also found that the MI-DDS's CE rates of payment exceeded the highest rate paid by Federal or other agencies in the State for the same or similar type of service, which resulted in related excess payments of \$106,070. Furthermore, internal control improvements were needed to segregate the timekeepers' duties.

¹ 42 U.S.C. § 421; 20 C.F.R. §§ 404.1601 et seq. and 416.1001 et seq.

² 20 C.F.R. §§ 404.1626 and 416.1026.

RECOMMENDATIONS

We recommend that SSA instruct the MI-DDS to refund \$1,248,415 in unallowable office space costs. We also recommend that SSA determine if it was necessary for the MI-DDS to exceed the highest allowable fees to obtain the CEs we identified with excess payments. If SSA determines that it was not necessary for the MI-DDS to exceed the highest allowable rates of payment, it should take appropriate action, such as instructing the MI-DDS to refund the excess CE payments and limiting future CE rates of payment. In addition, we recommend that the MI-DDS improve internal controls over the segregation of timekeepers' duties.

SSA COMMENTS

In commenting on our draft report, SSA generally agreed with our recommendations and stated that the MI-DDS inappropriately claimed office space costs. Following the issuance of our draft report, SSA and the MI-DDS agreed on a space plan that eliminates the Detroit DDS's use of 12,000 square feet of office space. SSA suggested recovery of unallowable office space costs based on the Detroit DDS's new space plan. See Appendix C for the full text of SSA's comments.

MI-FIA COMMENTS

The MI-FIA did not agree with some of our office space findings. Specifically, MI-FIA stated that the space occupied by the Detroit DDS was necessary and reasonable and in accordance with Federal criteria. Furthermore, MI-FIA believes SSA was adequately informed of the amount of space the Detroit DDS would occupy and provided us with documents in support of its belief. See Appendix D for the full text of MI-FIA comments.

OIG RESPONSE

We remain committed to our recommendations. The evidence presented in our audit report shows that the MI-DDS claimed office space costs for square footage that exceeded the amount necessary and reasonable to make disability determinations under SSA's disability programs. Also, actions taken by the MI-DDS during the course of our audit further support that the MI-DDS claimed unallowable office space costs. Specifically, MI-DDS reimbursed SSA for the costs of about 17,000 square feet of unnecessary storage space in October 2003, as a result of our preliminary audit findings. In addition, SSA and MI-DDS recently reached an agreement to eliminate an additional 12,000 square feet of unnecessary office space at the Detroit DDS. We reviewed the additional documents provided by MI-FIA that it believes supports that SSA was informed that Detroit DDS would occupy square footage in excess of that specified in the spending plan. These documents discuss computer-related issues for the Detroit DDS's space, but do not make any specific reference to the amount of square footage the Detroit DDS would occupy.

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Acronyms

Act	Social Security Act
ASAP	Automated Standard Application for Payments
CAP	Cost Allocation Plan
CE	Consultative Examination
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
DDS	Disability Determination Services
DI	Disability Insurance
DMB	Michigan Department of Management and Budget
EDP	Electronic Data Processing
FIA	Family Independence Agency
FTE	Full-Time Equivalents
FY	Fiscal Year
GAO	General Accounting Office
HHS	Department of Health and Human Services
MOU	Memorandum of Understanding
ODD	Office of Disability Determinations
OFM, FSG	Office of Facilities Management, Field Space Group
OMB	Office of Management and Budget
POMS	Program Operations Manual System
RRB	Railroad Retirement Board
SAS	Space Allocation Standards
SSA	Social Security Administration
SSA-4513	State Agency Report of Obligations for SSA Disability Programs
SSI	Supplemental Security Income
TSC	Teleservice Center
Treasury	Department of the Treasury

Introduction

OBJECTIVES

The objectives of our audit were to (1) evaluate Michigan Disability Determination Services (MI-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed were allowable and properly allocated and funds were properly drawn, and (3) assess the electronic data processing general controls environment. Our review included administrative costs claimed by the MI-DDS for Fiscal Years (FY) 2000 and 2001. At the Social Security Administration's (SSA) request, we expanded our audit period and reviewed office space costs claimed by the MI-DDS through December 2003.

BACKGROUND

The Disability Insurance (DI) program was established in 1954 under Title II of the Social Security Act (Act). 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.

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. Such determinations are required to be performed in accordance with Federal law and underlying 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.² To assist in making proper disability determinations, each DDS is authorized by SSA to purchase consultative examinations, such as x-rays and laboratory tests, to supplement evidence obtained from the claimants' physicians or other treating sources.³ See Appendix A for the scope and methodology of our audit.

The Michigan Family Independence Agency (MI-FIA) is the MI-DDS's parent agency. The MI-DDS has offices in Lansing, Detroit, Kalamazoo, and Traverse City, Michigan.

¹ 42 U.S.C. § 421; 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

² 20 C.F.R. §§ 404.1603(c)(1) and 404.1614(a); 20 C.F.R. §§ 416.1003(c)(1) and 416.1014(a).

³ 20 C.F.R. §§ 404.1614(a) and 404.1624; 20 C.F.R. §§ 416.1014(a) and 416.1024.

Results of Review

Our review of administrative costs disclosed that MI-DDS claimed unallowable office space costs of \$1,248,415. We also found the MI-DDS's CE rates of payment exceeded the highest rate paid by Federal or other agencies in the State for the same or similar type of service, which resulted in related excess payments of \$106,070. In addition, internal control improvements were needed to segregate the timekeepers' duties.

We estimate that SSA could realize about \$2.7 million in savings over the next 5 years if it successfully resolves the office space findings disclosed in this report.

OFFICE SPACE COSTS

For the period October 1999 through December 2003, the MI-DDS claimed unallowable office space costs of \$1,248,415. The unallowable costs occurred because the MI-DDS claimed costs for:

- Detroit DDS space in the Cadillac Place that exceeded a necessary and reasonable amount of square footage.
- Detroit DDS in the Cadillac Place before the DDS occupied the space.
- Lansing DDS in the Hannah Building for space not occupied by the DDS.
- Lansing DDS space in the Ottawa building at a higher square footage rate than the rate in effect during that time period.

Office Space Costs at the Cadillac Place

The MI-DDS claimed unallowable costs totaling \$1,108,311 during the period of January 2002 through December 2003 for space occupied by the Detroit DDS at the Cadillac Place. The unallowable costs occurred because the MI-DDS claimed office space costs for square footage that exceeded the amount necessary and reasonable to make disability determinations under SSA's disability programs.

On September 21, 2001, the MI-DDS submitted its FY 2002 annual spending plan to SSA. The spending plan informed SSA that the MI-DDS's Detroit DDS would move to a new location—the Cadillac Place—and occupy 45,629 square feet of space. In January 2002, the Detroit DDS relocated to the Cadillac Place—a State-owned public building.

Prior to relocating to the Cadillac Place, the Detroit DDS occupied office space of 41,936 square feet in the Wayne Executive Plaza. Upon relocation to the Cadillac Place, Detroit DDS was assigned 86,225 square feet of space, which included 69,063 square feet of office space and 17,162 square feet of storage space. According

to SSA, it was not informed that the Detroit DDS would occupy 40,596 square feet of space more than was specified in the spending plan. The increase in square footage resulted in a significant increase in the MI-DDS's space costs reported to SSA.

Accordingly, SSA requested that we expand our audit period and review office space costs for the MI-DDS through December 2003.

Our audit did not identify any reason for the Detroit DDS to increase the amount of its office space from the amount reported to SSA in the FY 2002 spending plan.

Specifically, the Detroit DDS did not experience staffing increases that would justify a need for over 40,000 square feet of additional space.⁴ In fact, our walk-through of the Detroit DDS identified unused work stations, unoccupied offices, and unused storage rooms. According to MI-DDS staff, only one of the three storage rooms were used and we noted that the room's contents included broken and obsolete office furniture that most likely should have been discarded instead of stored. According to the MI-DDS, the Detroit DDS never used 13,962 of the 17,162 square feet of storage space it was assigned.

Federal regulations provide, in part, that SSA "...will give the State funds...for necessary costs in making disability determinations..."⁵ Office of Management and Budget (OMB) Circular A-87 states, that in order to be allowable under Federal awards, costs must, among other things, "...be necessary and reasonable for proper and efficient performance and administration of Federal awards."⁶

The Detroit DDS' space in excess of the amount reported to SSA in the MI-DDS's FY 2002 spending plan—40,596 square feet—was not necessary and reasonable for the Detroit DDS to perform disability determinations under SSA's programs.

Furthermore, assigning the Detroit DDS square footage that is not needed to perform disability determinations under SSA's programs violates SSA DDS financial management policy.⁷ This policy states, "State agencies are expected to exercise reasonable care in the expenditure of funds required for making SSA disability determinations." The policy also requires that these funds be effectively and economically used in carrying out the provisions of the disability program.

During the course of our audit fieldwork, MI-DDS determined that it should not have claimed reimbursement from SSA for the 17,162 square feet of storage space. Accordingly, MI-DDS reimbursed SSA \$658,765 for the storage space costs it claimed from January 2002 through September 2003.

⁴ The Detroit DDS had 157 FTEs at the time of its relocation to the Cadillac Place in January 2002. As of November 2003, the DDS had 169 FTEs.

⁵ 20 C.F.R. §§ 404.1626 and 416.1026.

⁶ OMB Circular A-87, Attachment A, § C.1.a.

⁷ Program Operations Manual System (POMS) DI 39506.001.B.1.

In its written comments to the results of our audit, MI-FIA stated that the square footage occupied by the Detroit DDS in the Cadillac Place was calculated based upon criteria determined by the Michigan Department of Management and Budget (DMB)—the agency that manages the Cadillac Place.⁸ MI-FIA further stated that it had no latitude regarding space issues in State owned/managed buildings because this responsibility rested with DMB. MI-FIA also stated that the unique and inefficient internal layout of the Cadillac Place resulted in a need for more space to accommodate the same number of staff the Detroit DDS had at its previous location and accordingly, the space was necessary.

DMB may have the authority in the State of Michigan to determine the location and amount of space State agencies will occupy. However, DMB's authority in the State of Michigan does not preclude the MI-DDS from the requirement that State plans for physical moves to new space where decentralized offices are involved must be approved by SSA's regional office and central office.⁹ Accordingly, we conclude that the Detroit DDS claimed office space costs based on 23,434 more square feet than was necessary or reasonable for the Detroit DDS to make disability determinations for SSA. This resulted in unallowable office space costs of \$1,108,311.¹⁰

The MI-DDS also claimed additional unallowable costs of \$99,330 for Detroit DDS office space. Specifically, for November and December 2001, the Detroit DDS claimed office space costs based on 69,063 square feet of space that it would occupy in the Cadillac Place. However, the DDS did not relocate to the Cadillac Place until January 2002. This resulted in space costs being calculated on 27,127 more square feet of space than the DDS actually occupied in the Plaza Building.¹¹

Office Space Costs at the Hannah Building

The MI-DDS claimed unallowable costs totaling \$37,978 for space not occupied by the Lansing DDS. The Lansing DDS occupied 11,184 square feet of space in the Ottawa Building through May 2003. However, from July 2002 through May 2003, the MI-DDS claimed reimbursement from SSA based on 13,742 square feet, or 2,558 more square feet of space than the DDS actually occupied. This occurred because the MI-DDS claimed costs for space the Lansing DDS would eventually occupy in the Hannah building while the building was under construction rather than the space actually

⁸ In lieu of a formal exit conference, MI-FIA provided us written comments on the results of our audit which were dated January 9, 2004.

⁹ POMS DI 39527.010.A.

¹⁰ 40,596 (square feet occupied by the DDS in excess of the amount reported in the FY 2002 spending plan) less 17,162 (reduction in square footage assigned to the DDS) equals 23,434 square feet.

¹¹ Detroit DDS occupied 41,936 square feet of space in the Plaza Building (69,063 less 41,936 equals 27,127).

occupied in the Ottawa Building. The Lansing DDS did not relocate to the Hannah Building until June 2003.

Office Space Costs at the Ottawa Building

The MI-DDS claimed unallowable costs of \$2,796 for the Lansing DDS's space in the Ottawa Building. During FY 2001, the Lansing DDS occupied 11,184 square feet of space in the Ottawa building. For the first 10 months in FY 2001, the Lansing DDS was charged \$14.64 per square foot for its space in the Ottawa building. However, for the last two months in FY 2001 (August and September 2001), the MI-DDS was charged \$16.14 per square foot – an additional \$1.50 per square foot. We did not find the two-month rate increase for the Lansing DDS to be reasonable since the square footage rate published by DMB for the Ottawa Building was \$14.64 for all FY 2001.

CONSULTATIVE EXAMINATION COSTS

For FYs 2000 and 2001, we found that the MI-DDS reimbursed medical providers at payment rates in excess of the maximum rates paid by Federal or other agencies in the State. The related excess payments totaled \$106,070. Federal regulations require that each State determine the payment rates for medical or other services necessary to make determinations of disability. The rates may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar type of service.¹² The State is responsible for monitoring and overseeing the rates of payment for medical and other services to ensure that the rates do not exceed the highest rate paid by Federal or other agencies in the State.¹³

We compared the rates paid by Medicare and the Railroad Retirement Board (RRB) with the fees paid by the MI-DDS for its x-rays, laboratory tests, and other medical services.¹⁴ We found that MI-DDS used payment rates that exceeded the highest allowable rates, which resulted in excess payments totaling \$106,070 (see Appendix B). Our comparison also disclosed that the payment rate for one CE—Bayley Scales¹⁵—was significantly higher than the highest allowable rate (Medicare). In fact, the MI-DDS payments related to the Bayley Scales accounted for over 85 percent of the total payments that exceeded the highest allowable rates of payment during FYs 2000 and 2001.

¹² 20 C.F.R. §§ 404.1624 and 416.1024.

¹³ 20 C.F.R. §§ 404.1519k and 416.919k.

¹⁴ In setting its CE fees, the MI-DDS used the fees paid by Medicare and RRB. In our comparison of the MI-DDS's CE fees, we used the highest fee paid by either Medicare or RRB.

¹⁵ The Bayley Scales CE is a psychological test. The MI-DDS compared the Bayley Scales CE to the American Medical Association's Current Procedural Terminology code 96100.

MI-DDS staff stated that it was necessary to exceed the highest allowable rates of payment for some CEs to obtain the services. For example, MI-DDS stated that medical providers were unwilling to perform the Bayley Scales CE at the fee allowed by Medicare. We did not confirm this information. SSA staff in the Chicago Regional Office told us that they were unaware that the MI-DDS reimbursed medical providers at payment rates in excess of the highest rate paid by Federal or other agencies in the State for the same or similar service.

For the CEs we identified that exceeded the highest allowable rates of payment, we recommend that SSA determine if it was necessary for the MI-DDS to exceed the highest allowable fees to obtain the services. If SSA determines that it was not necessary for the MI-DDS to exceed highest allowable rates of payment, it should take appropriate action, such as instructing the MI-DDS to refund the excess CE payments and limiting future CE rates of payment.¹⁶

SEGREGATION OF DUTIES

The MI-DDS' timekeepers record their own time and attendance. This practice is prohibited by MI-FIA policy.¹⁷ Our review did not disclose any improprieties resulting from the lack of segregation of duties in the timekeeping function. However, this lack of controls results in an environment susceptible to fraud and abuse. The General Accounting Office (GAO) *Standards for Internal Controls in the Federal Government* states, "No one individual should control all key aspects of a transaction or event." The GAO standards further state that "[k]ey duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This adequate separation of duties should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets."¹⁸

¹⁶ In its comments to our draft report, SSA agreed with our recommendation. See Appendix B for additional information related to our recommendation.

¹⁷ Michigan Department of Social Services Administrative Handbook, Item 633.3, Page 4. Subject: Timekeeping Biweekly Totals Area. (Adm. Hbk. 89-14, Rev. 12-19-89, Eff. 2-18-90).

¹⁸ GAO Standards for Internal Controls in the Federal Government-AIMD-00-21.3.1, Page 14 (November 1999).

Conclusions and Recommendations

Our review of administrative costs disclosed that MI-DDS charged unallowable office space costs of \$1,248,415 to SSA. We also found that the MI-DDS's CE rates of payment exceeded the highest rate paid by Federal or other agencies in the State for the same or similar type of service, which resulted in related excess payments of \$106,070. Furthermore, internal control improvements were needed in the segregation of timekeeper duties.

We recommend that SSA:

1. Instruct the MI-DDS to refund \$1,248,415 for unallowable office space costs.
2. Instruct the MI-DDS to claim future office space costs for the Detroit DDS based on reasonable and necessary square footage amounts that are approved by SSA.
3. Determine if it was necessary for the MI-DDS to exceed the highest allowable fees to obtain the CEs we identified with excess payments. If SSA determines that it was not necessary for the MI-DDS to exceed the highest allowable rates of payment, it should take appropriate action, such as instructing the MI-DDS to refund the excess CE payments and limiting future CE rates of payment.
4. Instruct the MI-DDS to establish alternate timekeepers to ensure that the primary timekeepers do not maintain their own time and leave records.

SSA COMMENTS

In commenting on our draft report, SSA generally agreed with our recommendations and stated that the MI-DDS inappropriately claimed office space costs. Following the issuance of our draft report, SSA and the MI-DDS agreed on a space plan that eliminates the Detroit DDS's use of 12,000 square feet of office space. SSA suggested recovery of unallowable office space costs based on the Detroit DDS's new space plan. See Appendix C for the full text of SSA's comments.

MI-FIA COMMENTS

The MI-FIA did not agree with some of our office space findings. Specifically, MI-FIA stated that the space occupied by the Detroit DDS was necessary and reasonable and in accordance with Federal criteria. Furthermore, MI-FIA believes SSA was adequately informed of the amount of space the Detroit DDS would occupy and provided us with documents in support of its belief. See Appendix D for the full text of MI-FIA comments.

OIG RESPONSE

We remain committed to our recommendations. The evidence presented in our audit report shows that the MI-DDS claimed office space costs for square footage that exceeded the amount necessary and reasonable to make disability determinations under SSA's disability programs. Also, actions taken by the MI-DDS during the course of our audit further support that the MI-DDS claimed unallowable office space costs. Specifically, MI-DDS reimbursed SSA for the costs of about 17,000 square feet of unnecessary storage space in October 2003, as a result of our preliminary audit findings. In addition, SSA and MI-DDS recently reached an agreement to eliminate an additional 12,000 square feet of unnecessary office space at the Detroit DDS. We reviewed the additional documents provided by MI-FIA that it believes supports that SSA was informed that Detroit DDS would occupy square footage in excess of that specified in the spending plan. These documents discuss computer-related issues for the Detroit DDS's space, but do not make any specific reference to the amount of square footage the Detroit DDS would occupy.

Other Matters

As discussed on Page 2 of this report, the Detroit DDS moved to a new location—the Cadillac Place—in January 2002. We found that SSA did not follow its own policies related to the Detroit DDS' relocation. Specifically, SSA is required to do the following prior to approving a DDS's relocation to new office space:

- Both the regional office and the central office must review and approve any State plans for physical moves to new space where decentralized offices are involved.¹⁹
- Allow a maximum of 150 square feet of space per full-time equivalent (FTE).²⁰

According to SSA, the only documentation it reviewed prior to the Detroit DDS' relocation was the information provided by the MI-DDS in its FY 2002 spending plan. The spending plan simply stated that the Detroit DDS would occupy 45,629 square feet of space at its new location. SSA did not review any State plans or documentation that would allow them to evaluate the necessity of the Detroit DDS' space in the Cadillac Place. If SSA had followed the POMS guidance, the excessive space now occupied by the Detroit DDS would have been identified and the unallowable space costs identified in our audit report would have been avoided prior to the DDS' relocation.

SSA informed us that it does not hold DDS' accountable to the maximum of 150 square feet of space per FTE outlined in POMS. According to SSA's Office of Disability Determinations (ODD), the office space guidance in POMS is outdated because it does not account for the additional space that is needed to accommodate items, such as personal computers. ODD stated that it is in the initial stages of updating the POMS instructions for DDS space.

Upon relocating to the Cadillac Place in January 2002, the Detroit DDS had 157 FTEs. If SSA held the DDS to the maximum of 150 square feet of space per FTE, the Detroit DDS would have been limited to claiming reimbursement on 23,550 square feet of office space instead of 86,225 square feet. And, office space costs charged to SSA for the Detroit DDS would have been \$2.9 million less for the period January 2002 through December 2003.

To further illustrate the extent of excessive square footage occupied by the Detroit DDS, we compared the amount of space assigned to the Detroit DDS to the amount of space occupied by an SSA component with comparable FTEs, the Los Angeles Teleservice Center (TSC). We found that the Detroit DDS occupied more than three times the amount of space per FTE than the Los Angeles TSC. The Los Angeles TSC's

¹⁹ POMS DI 39527.010.A.

²⁰ POMS DI 39527.050.D.5.

200 FTEs occupied 33,543 square feet of space or 168 square feet of space per FTE. In comparison, the Detroit DDS' 157 FTEs occupied 86,225 square feet of space or 549 square feet of space per FTE. The Los Angeles TSC's space is based on SSA's Space Allocation Standards (SAS). The SAS are used to determine the amount of space allowable for SSA office locations outside of the Baltimore, Maryland Headquarters. In general, the SAS allows between 125 to 150 square feet of space per FTE for SSA office locations. The SAS also allows additional square footage for interview rooms and training rooms. Although the operations of a DDS and a TSC may differ somewhat, their space requirements should be comparable.

SSA needs to establish DDS space allocation standards and they should be comparable to the standards used to determine the allowable space for SSA components. Once the standards are in place, SSA may want to consider having the space experts in the Regional Offices' Field Services Division review DDS space allocation plans and supporting documentation before the space is approved.

Appendices

Scope and Methodology

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 Michigan Disability Determination Services (MI-DDS) and the draw down of Social Security Administration (SSA) funds.
- Interviewed State of Michigan internal auditors who performed the Michigan single audit. Because of the limited scope of the single audit work performed at MI-DDS, we did not rely on the single audit work.
- Interviewed staff at MI-DDS, Michigan Family Independence Agency (MI-FIA), Michigan Department of Management and Budget, and SSA Regional Office, Chicago, Illinois.
- Reviewed State policies and procedures related to personnel, medical services, and all other nonpersonnel costs.
- Reviewed the Memorandum of Understanding between SSA and the MI-FIA for non-SSA work.
- 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 MI-DDS on the Form SSA-4513 for Fiscal Years (FY) 2000 through 2001.
- Reviewed the administrative costs MI-DDS reported on its Form SSA-4513 for FYs 2000 through 2001. SSA was concerned about office costs for the MI-DDS, so we expanded the audit period to include office space costs claimed by MI-DDS for FYs 2000 through 2003 (December 2003).
- Examined the administrative expenditures (personnel, medical service, and all other nonpersonnel costs) incurred and claimed by MI-DDS for FYs 2000 through 2001 on the Form SSA-4513. We used statistical sampling to select documents to test for support of the medical service and all other nonpersonnel costs.

- Examined workers compensation costs claimed by the MI-DDS for FYs 2000 through 2002.
- Examined leave settlement costs claimed by MI-DDS for the last quarter of FY 2002 through the first quarter of FY 2003.
- Examined the indirect costs claimed by MI-DDS for FYs 2000 through 2001 and the corresponding MI-FIA Cost Allocation Plans (CAP).
- Compared the amount of SSA funds drawn for support of program operations to the expenditures reported on the Form SSA-4513.
- Discussed indirect costs issues with the Department of Health and Human Services Division of Cost Allocation, Chicago, Illinois.
- Reviewed MI-DDS electronic data processing general controls and physical security at selected offices in Lansing and Detroit, Michigan.

We concluded that the electronic data used in our audit was sufficiently reliable to achieve our audit objectives. We assessed the reliability of the electronic data by reconciling it 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 work at the MI-DDS offices in Lansing and Detroit, Michigan, the MI-FIA office in Lansing, MI and the SSA Regional Office in Chicago, Illinois. We conducted field work from October 2002 through October 2003. The audit was conducted in accordance with generally accepted government auditing standards.

METHODOLOGY

Our sampling methodology encompassed the four general areas of costs as reported on Form SSA-4513: (1) personnel; (2) medical; (3) indirect; and (4) all other nonpersonnel costs. We obtained computerized data from MI-FIA for Fiscal Years (FY) 2000 and 2001 for use in statistical sampling. In addition, we obtained data supporting indirect costs claimed for FY 2000 through FY 2001.

Personnel Costs

We judgmentally sampled 20 MI-DDS employees and 20 Medical consultants from 2 judgmentally selected pay periods in FY 2000 and 2001. We tested the payroll records to ensure individuals were paid correctly and payroll was adequately documented.

Medical Costs

We sampled 100 items (50 items each from FYs 2000 and 2001) using a stratified random sample. We stratified medical costs into Medical Evidence of Record and Consultative Examinations (CE), selecting more CE invoices, because CE costs represented 71 percent of all medical costs.

Indirect Costs

We conducted a 100-percent review of indirect costs. Our objective was to ensure the Social Security Administration reimbursed MI-DDS in compliance with the State CAP. For FYs 2000 and 2001, we judgmentally sampled various types of expenditures used to allocate the indirect costs.

All Other Nonpersonnel Costs

We selected a stratified random sample of 100 items (50 expenditures each from FYs 2000 and 2001) of All Other Nonpersonnel costs. We stratified All Other Nonpersonnel costs into eight cost categories: (1) Applicant Travel; (2) Staff Travel; (3) Communications; (4) Equipment, (5) Supplies; (6) Contracting Out; (7) Miscellaneous; and (8) Occupancy. We selected a stratified random sample of 50 items from each FY based on the percentage of costs in each category (excluding occupancy) to total costs. We also performed a 100 percent review of occupancy expenditures for the MI-DDS from October 1999 through December 2003 at the request of the Chicago Regional Office.

Appendix B

Michigan Disability Determination Services (MI-DDS) Consultative Examination (CE) Costs

Fiscal Year 2000

CE Code¹	MI-DDS Fee	Highest Allowable Rate	Difference Between MI-DDS Fee and Highest Allowable Rate	Number of Exams	Amount in Excess of Highest Allowable Rate
96100	\$180.00	\$94.40	\$85.60	609	\$52,130.40
85031	11.00	9.00	2.00	595	1,190.00
80053	26.00	14.39	11.61	543	6,304.23
					Total \$59,624.63

Fiscal Year 2001

CE Code	MI-DDS Fee	Highest Allowable Rate	Difference Between MI-DDS Fee and the Highest Allowable Rate	Number of Exams	Amount in Excess of the Highest Allowable Rate
96100	\$180.00	\$94.40	\$85.60	481	\$41,173.60
85031	11.00	9.00	2.00	436	872.00
80053	26.00	14.39	11.61	379	4,400.19
					Total \$46,445.79

¹ In its comments to our draft report, SSA stated that the MI-DDS provided documentation/information which showed that it was necessary to exceed the highest allowable rate in order to purchase the Bayley Scales CE (Code 96100). However, SSA did not specifically comment on the remaining CE codes we identified with excess payments (Codes 85031 and 80053). On May 4, 2004, we asked SSA if they concurred with our recommendation as it relates to these two CE codes. SSA stated that it agreed with our recommendation and plans to determine if it was necessary for the MI-DDS to exceed the highest allowable rates to obtain CEs under these two codes.

Appendix C

Agency Comments

From: Jamison, Jim
Sent: Monday, April 12, 2004 2:57 PM
To: Schaeffer, Steve
Cc: ||CHI ORC; ||CHI ARC MOS; ||CHI ARC MOS CD; ^DCO Audit; ^DCDISP Audit; ^DCFAM Controls; Wallace, Rusty; Wise, Ray; Schaefer, Karen; Jamison, Jim
Subject: Michigan Admin Audit draft report.dot -- OIG #A-05-03-13036

The memorandum below contains the Region's comments on the subject report.

MEMORANDUM

Date: Refer To: S2D5G2
Refer

To: Assistant Inspector General
for Audit

From: Regional Commissioner
Chicago

Subject: Administrative Costs Claimed by the Michigan Disability Determination Services (Your Request
for Comments Dated March 22, 2004) -- REPLY

Attached are the Region's comments on the subject draft report (A-05-03-13036).

We appreciate OIG's willingness to honor our request at the opening conference to focus particular attention on the recent space actions in the DDS, and to expand the time period of the audit of space costs through December 2003. A State government directive required the relocation of the DDS office in Detroit to space that was ill-suited for their needs. This decision was made without input from either the DDS or the Chicago Regional Office. Additionally, we understand that, at least in the initial phases of the audit, the State Agency responsible for building management was less than cooperative. SSA's administrative guideline concerning DDS space allocation which limits States to 150 square feet (sq. ft.) of net space per full-time equivalent is outdated. This compounded the problems faced by the audit team and left the definition of reasonable space very much in question. We have worked closely with the DDS to reduce the size of the Detroit space and with our Headquarters staff to develop space guidelines that more accurately reflect the current workplace environment. We are pleased that as a result of your audit the State has already reimbursed SSA for 17,162 sq. ft. of storage space and is in the process of vacating an additional 11,961 sq. ft. of office space in Detroit.

Thank you for the opportunity to comment on the draft findings and recommendations.

Questions about this memorandum may be directed to Jim Jamison, Financial Management Team Leader, at 312-575-4212.

/s/
James F. Martin

Attachment

cc: Deputy Commissioner for Operations
Deputy Commissioner for Finance Assessment and Management

Attachment

Comments on findings/recommendations included in draft report "Administrative Costs Claimed by the Michigan Disability Determination Services (MI-DDS), OIG Audit No. A-05-03-13036":

1. Finding/Recommendation: Instruct the MI-DDS to refund \$1,248,415.00 for unallowable office space costs.

We agree that the MI-DDS inappropriately claimed costs for office space in FYs 2002-2004 (through December 2003). The State has also informally agreed with the finding as it relates to the questionable charges for the Hannah (\$37,978.00) and Ottawa (\$2,796.00) buildings and for the secondary finding of claiming the higher rent costs at the Cadillac building 2 months prior to the actual relocation to that space (\$99,330.00). However, we believe the primary finding of questionable charges concerning the Cadillac building (\$1,108,311.00) should be modified.

From January 2002 through February 2004, the DDS occupied 69,063 sq. ft. of the Cadillac building. The DDS did not seek SSA approval for this square footage, but justified the need for this amount of space based on the building's inefficient layout and projections that would increase the number of employees from 199 to 272. OIG's finding is based on limiting the allowable square footage in the Cadillac building to 45,629 sq. ft., the amount of footage indicated in the DDS's annual spending plan request for FY 2002.

We support the MI-DDS's contention that the "footprint" of the Cadillac building is inefficient. Construction of the building was completed in 1923. The layout, eight long and narrow wings connected by a central hallway, was designed to make maximum use of natural light and window ventilation. It is ill-suited to house a modern office environment without a significant amount of wasted (non-usuable) space. Additionally, we acknowledge that SSA's administrative guideline concerning reasonable office space (maximum net space of 150 sq. ft. per FTE) is obsolete. We cannot support, however, the DDS's projection of increased staff. We did not provide the DDS this information, and have no knowledge of any documentation that would support the level of staffing used by the DDS in formulating their space needs.

At our request, the DDS reassessed its space needs in Detroit. As a result, a plan was implemented in March to consolidate staff and eliminate the use of 12,000 sq. ft. of office space. We are aware that the remaining 57,063 sq. ft. of total (usable and non-usable) office space for 169 employees still significantly exceeds both SSA's guidelines and the DDS's FY 2002 spending plan projection. However, the administrative guideline of 150 sq. ft. per FTE does not adequately address current space needs. Considering this issue, along with the inefficiencies inherent in the design of the Cadillac building, we believe the use of 57,063 sq. ft. in total office space is a necessary and reasonable expense for the MI-DDS. Further, we believe this approved level of square footage can be applied retroactively to determine the amount of reasonable and necessary space for the Detroit MI-DDS for the period covered by this audit.

Based on the revised allowable square footage in the Detroit DDS (Cadillac Building), the unallowable charges for office space should be recalculated as follows:

CADILLAC BUILDING	OIG UNALLOWABLE	SSA UNALLOWABLE	DIFFERENCE
Jan. 2002 - Sept. 2002	\$386,134	\$197,730	\$188,404
Oct. 2002 - Sept. 2003	\$585,381	\$299,760	\$285,621
Oct. 2003 - Dec. 2003	\$136,796	\$70,050	\$66,746
TOTALS	\$1,108,311	\$567,540	\$540,771

In summary, we support a finding that would instruct the MI-DDS to refund a total of \$707,644.00 for unallowable office space costs (Cadillac, Hannah, and Ottawa buildings).

2. Finding/Recommendation: Instruct the MI-DDS to claim future office space costs for the Detroit DDS based on reasonable and necessary square footage amounts that are approved by SSA.

We agree with this recommendation and have been working closely with the MI-DDS to reduce the square footage of the Detroit office. As mentioned previously, DDS actions last month and this month will result in a significantly "downsized" office space. Given the unique (and inefficient) "footprint" of this 80-year old structure, we have found the remaining square footage occupied by the Detroit DDS (approximately 57,000 sq. ft. of total office space) to be reasonable and necessary. SSA's Central Office staff has been advised of this determination. Also, the MI-DDS has been reminded that the Regional Commissioner must review and approve all new/renewed lease agreements and relocations for decentralized DDSs.

3. Finding/Recommendation: Determine if it was necessary for the MI-DDS to exceed the highest allowable fees to obtain the CEs we identified with excess payments. If SSA determines that it was not necessary for the MI-DDS to exceed the highest allowable rates of payment, it should take appropriate action, such as instructing the MI-DDS to refund the excess CE payments and limiting future CE rates of payment.

We agree that the DDS is required to maintain documentation that the rate of payment for medical evidence and CE's does not exceed the highest rate paid by Federal or public agencies in the State for the same or similar services [20 CFR 404.1519K (a)]. We also agree that in this instance the MI-DDS had not followed the regulations and had not requested any waiver or exception from these requirements

However, we do believe there are several valid reasons for medical fees to exceed the Medicare reimbursement rate, and note that this issue has previously been addressed by the Agency. In OIG Audit No. A-07-99-21004 (Appendix D - Agency Comments) the Acting Commissioner stated, "We disagree with the assertion in the Executive Summary that medical services provided for Medicare and DDSs are the same or very similar and that there is no reason for DDSs to reimburse medical providers at fees higher than those allowed by Medicare". There are several reasons for higher reimbursement rates:

- * The nature of the "service" differs (reimbursement for medical treatment versus evaluation of disability);
- * The price-setting mechanism differs (Medicare reimbursements have been limited by Congressional action in recent years; marketplace considerations may affect CE costs);
- * SSA may reasonably pay a higher price for a CE in order to get fast and reliable medical information to process a medical determination;
- * States may use other public (Federal or State) fee schedules.

To determine if it was necessary for the MI-DDS to establish fees which exceed the highest allowable rate of payment, we asked the DDS to provide rationale and/or documentation supporting this rate if they felt it was appropriate. The DDS has now provided us with information on the efforts they made to secure Bayley studies at a lower rate. The DDS had two CE sources that traveled to Michigan's Upper Peninsula (UP) to do these studies for a fee of \$180. When the DDS lowered the payment to \$130 in January 2002, both sources indicated they would sever their relationship with the DDS. Even though the DDS agreed to continue paying these two sources \$180, one of the providers in the UP has stopped doing CE's indicating that even at the higher fee the DDS overall reimbursement rates including travel were insufficient to cover out-of-pocket expenses. To lower rates further would not only inconvenience our claimants but, in some cases, result in travel costs to other locations that would make the cost to the DDS higher than the rate questioned by OIG. We have reminded the DDS staff that proper documentation (e.g., a printout of the State component or Medicare fee schedule) should be maintained in the DDS.

4. Instruct the MI-DDS to establish alternate timekeepers to ensure that the primary timekeepers do not maintain their own time and leave records.

We agree with this recommendation and will instruct the DDS to establish procedures, or modify existing procedures to eliminate this practice, and help safeguard the payroll process from fraud and abuse.

Appendix D

Michigan Family Independence Agency Comments

Responses to Office of The Inspector General
Audit of
Administrative Costs Claimed
By the Michigan Disability
Determination Services

Detroit DDS Space in the Cadillac Place that Exceeded a Necessary and Reasonable Amount of Square Footage

We disagree with the finding.

We request that this finding be eliminated from the report. We believe the finding is without merit and is not supported by the criteria cited in the report.

Throughout the finding, various federal criteria are used to justify the auditor's position. In responding to this finding, we have separated the two major points mentioned in Circular A-87 as reasonable and necessary. Next, we have presented audit evidence that supports our position that we did contact the Social Security Administration concerning the additional square footage usage.

Circular A-87 Criteria-Reasonable

The finding cites Circular A-87 as criteria for disallowing the cost. We believe that the Circular has been misinterpreted and manipulated to justify the auditor's position.

The auditors cite Circular A-87 as follows:

Federal regulations provide, in part, that SSA "...will give the State funds...for necessary costs in making disability determinations... OMB Circular A-87 states, that in order to be allowable under Federal awards, costs must, among other things, "...be necessary and reasonable for proper and efficient performance and administration of Federal awards."

Circular A-87 defines reasonable cost as:

"A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person under the circumstances prevailing at the time the decision was made to incur the cost."

We believe that had the auditors compared the per person facility cost or any other cost comparisons to house the DDS employees, they would have found that FIA charged the cost "prevailing at the time the decision was made to incur the cost."

Our conclusion in reviewing this portion of the finding as it relates to Circular A-87 is that the cost is reasonable to perform disability determinations (no audit evidence is presented to the contrary).

Circular A-87 Criteria-Necessary

The finding makes several unsubstantiated conclusions in an attempt to support the position that DDS was allocated excessive square footage.

Throughout the finding there is a comparison between the 41,963 square feet occupied by DDS in the Wayne Executive Plaza with the 69,063 square feet used in the Cadillac Place. From these two numbers a conclusion is drawn that since one number is larger than the other, the larger number must be unnecessary usage!

To our knowledge, there was no audit work performed to determine whether the 41,963 square feet was insufficient space to house the DDS staff in the Wayne Executive Plaza. Also, to our knowledge, there was no audit work performed to determine whether the additional 23,434 square feet used in the Cadillac Place was too large or unnecessary to house DDS staff in the Cadillac Place. There was no square foot per person comparison; no comparison of DDS usage with other federally funded programs. In fact, the audit report does not state any criteria to prove unnecessary square footage usage. Instead the auditors reported "negative assurance" (an audit term meaning nothing came to my attention) when they state... "Our audit did not identify any reason for the Detroit DDS to increase the amount of its office space from the amount reported to SSA in the FY 2002 spending plan." If no review or audit testing is performed, an auditor can make this statement of negative assurance.

In the audit process, it is the auditor's responsibility to prove noncompliance with regulations. In this situation, it has not been demonstrated that any noncompliance occurred related to the additional 23,434 square footage utilized, except that the square footage currently used is larger than what was used in the past.

Our conclusion in reviewing this portion of the finding as it relates to Circular A-87 is that the square footage space was necessary (no audit evidence is presented to the contrary).

Contacting Social Security Administration Concerning the Additional Square Footage Usage

Throughout the report reference is made that FIA did not contact the SSA to inform them of the additional square footage usage.

The report states... “According to SSA, it was not informed that the Detroit DDS would occupy 40,596 square feet of space more than was specified in the spending plan.”

Please review the attached documents that cite communications from FIA to SSA concerning the additional space.

Based on these documented communications we believe that SSA was informed of the additional space. Therefore, we believe that this is sufficient audit evidence to support our position that this finding should be eliminated from the report.

Detroit DDS in the Cadillac Place Before the DDS Occupied the Space

We agree and have taken steps to correct the situation.

Lansing DDS in the Hannah Building for Space Not Occupied

We agree and have taken steps to correct the situation.

Office Space Cost at the Ottawa Building

We agree and have taken steps to correct the situation.

Consultative Examination Cost

We agree and have taken steps to correct the situation.

Segregation of Duties

We agree and have taken steps to correct the situation.

Appendix E

OIG Contacts and Staff Acknowledgments

OIG Contacts

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

Teresa Williams, Audit Manager, (312) 353-0331

Acknowledgments

In addition to those named above:

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Sherman Doss, Auditor

Anthony Lesniak, Auditor

Cheryl Robinson, Writer/Editor

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