

Office of the Inspector General

November 24, 1998

James M. Fornataro
Associate Commissioner
for Acquisition and Grants

Assistant Inspector General
for Audit

Costs Claimed by the State of Michigan on the Social Security Administration's
Contract Number 600-95-22670

The attached final report presents the results of our audit of the costs claimed by the State of Michigan on the Social Security Administration's Contract Number (CN) 600-95-22670 (A-13-97-51026). The objective of our audit was to determine if costs claimed by the State of Michigan for CN 600-95-22670 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract. This report also provides the Contracting Officer with cost information to determine the final value of the contract and to use in closing out the contract.

You may wish to comment on any further action taken or contemplated on our recommendation. If you choose to offer comments, please provide them within the next 60 days. If you wish to discuss the final report, please call me at (410) 965-9700.

Pamela J. Gardiner

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**COSTS CLAIMED BY
THE STATE OF MICHIGAN ON THE
SOCIAL SECURITY ADMINISTRATION'S
CONTRACT NUMBER 600-95-22670**

November 1998 A-13-97-51026

AUDIT REPORT



Office of the Inspector General

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Costs Claimed by the State of Michigan on the Social Security Administration's
Contract Number 600-95-22670

This report presents the results of our audit of the costs claimed by the State of Michigan on the Social Security Administration's (SSA) Contract Number (CN) 600-95-22670. The objective of this audit was to determine if costs claimed by the State of Michigan for CN 600-95-22670 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract. This report also provides the Contracting Officer with cost information to determine the final value of the contract and to use in closing out the contract.

INTRODUCTION

SSA's Office of Acquisition and Grants (OAG) requested an audit of costs incurred by the State of Michigan (CN 600-95-22670) for Referral and Monitoring Agency (RMA) services to refer, assess, and monitor drug addicts and alcoholics (DA&A) receiving Supplemental Security Income (SSI) benefits.¹ The contracted service period was from September 25, 1995 through February 28, 1997. The costs claimed under CN 600-95-22670 are defined in terms of the contract and the *Office of Management and Budget (OMB) Circulars A-87 "Cost Principles for State, Local and Indian Tribal Governments"* and *A-122 "Cost Principles for Non-Profit Organizations."* These circulars provide criteria to establish allowability, allocability, and reasonableness of costs claimed by State and nonprofit entities for Federal cost reimbursement contracts.

¹ SSI provides income maintenance payments to low-income individuals who are aged, blind, or disabled. DA&As were determined disabled if they met income and other eligibility requirements, but this category was eliminated in March 1996 by Public Law 104-121. However, prior to the elimination of the DA&A category, each State had an RMA contractor who referred, assessed, and monitored both title II and title XVI DA&A recipients.

SCOPE AND METHODOLOGY

We limited our audit to the review of costs claimed by the State of Michigan and its subcontractor for CN 600-95-22670. We did not assess, and do not express an opinion of the overall acceptability of the State of Michigan or its subcontractor's internal controls or accounting systems.

We did review, on a limited basis, the contractor and subcontractor's internal controls. In doing so, we assessed control risk as "high" and expanded our substantive test, which our audit reflects and which provides a reasonable basis for our conclusions. We also examined, on a test basis, evidence supporting the amounts claimed; inspected disclosures in the data; reviewed records; assessed the accounting principles used and significant estimates made by the contractor and subcontractor; and evaluated the overall data and records presentation.

To evaluate claimed costs, we used *OMB Circulars A-87 and A-122*, plus the terms and conditions of the contract. We questioned costs that did not meet the requirements of these circulars and/or the contract.

We performed fieldwork at the State of Michigan, Michigan Jobs Commission and its subcontractor, Central Diagnostic and Referral Services, Inc. – both located in Lansing, Michigan. We also performed work at OAG located at SSA Headquarters in Baltimore, Maryland. We conducted our fieldwork from February through July 1998 in accordance with generally accepted government auditing standards.

CONCLUSION

We determined the costs claimed by the State of Michigan for CN 600-95-22670 were allowable, allocable, and reasonable in accordance with applicable Federal regulations and the terms of the contract.

Costs Claimed by the State of Michigan

The State of Michigan claimed costs in accordance with the terms of the contract and/or applicable Federal regulations. Details of the costs are shown on the following page:

Cost Element	Claimed	Recommended	Questioned
Direct Labor	\$794,017	\$794,017	\$0
Fringe Benefits	310,034	310,034	0
Kelly Temp Services	46,479	46,479	0
Communications	26,933	26,933	0
Postage & Delivery	25,777	25,777	0
Supplies	35,623	35,623	0
Office Space Rental	94,185	94,185	0
Equipment Rental	2,079	2,079	0
Miscellaneous	15,747	15,747	0
Travel	31,933	31,933	0
Equipment	25,819	25,819	0
Subcontractor	2,030,532	2,030,532	0
Administrative Overhead	121,706	121,706	0
Indirect Charges	106,051	106,051	0
Total Costs Claimed	<u>\$3,666,915</u>	<u>\$3,666,915</u>	<u>\$ 0</u>

RECOMMENDATION

We recommend that SSA close out the State of Michigan CN 600-95-22670 in the amount of \$3,666,915.

Pamela J. Gardiner

APPENDICES

MAJOR REPORT CONTRIBUTORS

Office of the Inspector General

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For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-9135. Refer to Common Identification Number A-13-97-51026.

APPENDIX B

SSA ORGANIZATIONAL CHART
