
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS
CLAIMED BY THE KENTUCKY
DEPARTMENT FOR DISABILITY
DETERMINATION SERVICES**

September 2003 A-08-03-13007

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.



SOCIAL SECURITY

MEMORANDUM

Date: September 24, 2003 **Refer To:**

To: Paul D. Barnes
Regional Commissioner
Atlanta

From: Assistant Inspector General
for Audit

Subject: Administrative Costs Claimed by the Kentucky Department for Disability Determination Services (A-08-03-13007)

OBJECTIVE

The objectives of our audit were to (1) evaluate the Kentucky Department for Disability Determination Services' (KY-DDS) and the Kentucky Cabinet for Families and Children's (KY-CFC) internal controls over the accounting and reporting of administrative costs and (2) determine whether costs claimed were allowable and properly allocated and funds were properly drawn.

BACKGROUND

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

The Social Security Administration (SSA) is primarily responsible for implementing policies governing the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by Disability Determination Services (DDS) in each State or other responsible jurisdictions. 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

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

determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized by SSA to purchase consultative medical examinations, such as x-rays and laboratory tests, 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 Once SSA approves the annual budget, the DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system. The DDS is required to draw funds according to Federal regulations³ and in accordance with intergovernmental agreements entered into by Treasury and the States under the authority of the Cash Management Improvement Act of 1990.⁴ At the end of each fiscal quarter, the DDS is required to submit to SSA a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) to account for program disbursements and unliquidated obligations.⁵

KY-DDS is a component of KY-CFC. KY-CFC provides administrative services to KY-DDS and prepares the Form SSA-4513. KY-CFC allocates indirect costs to its various activities on a monthly basis according to its approved Cost Allocation Plan.

The State of Kentucky implemented a new accounting system effective July 1, 1999. Consequently, KY-CFC used two accounting systems during our audit period.

SCOPE AND METHODOLOGY

We reviewed the administrative costs KY-CFC reported on Form SSA-4513 for Fiscal Years (FY) 1999 through 2001 through the quarter ended March 31, 2002. We obtained evidence to determine whether the costs were allowable under Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and appropriate, as defined by SSA's Program Operations Manual System (POMS).

² 20 C.F.R. §§ 404.1626 and 416.1026.

³ 31 C.F.R. § 205.

⁴ Pub. L. No. 101-453 (codified in scattered section of 31 U.S.C.).

⁵ SSA, POMS, DI 39506.815.

We also

- reviewed applicable Federal regulations and pertinent parts of the POMS;
- held discussions with KY-DDS and KY-CFC staffs as well as SSA's Disability Program Administrator responsible for the State of Kentucky;
- ascertained the policies and procedures KY-DDS and KY-CFC followed in initiating and processing financial transactions;
- evaluated and tested internal controls regarding accounting, financial reporting and cash management activities;
- reconciled the accounting records of the State Comptroller's Office with the administrative costs KY-CFC reported on the Form SSA-4513;
- examined documentation for selected direct cost transactions (personnel services costs, medical costs, and all other non-personnel costs) reported by KY-CFC (we used statistical sampling techniques to select transactions for medical costs and all other non-personnel costs [see Appendix B] and non-statistical sampling techniques to select transactions for personnel services costs and office space rental costs);
- examined indirect costs allocations for 3 judgmentally selected months;
- compared the amount of SSA funds drawn to the allowable expenditures reported on the Form SSA-4513;
- reviewed the State of Kentucky's Auditor of Public Account's Single Audit reports and related working papers for the period July 1, 1998 through June 30, 2001; and
- conducted a physical inventory of (1) equipment KY-DDS purchased during our audit period and (2) computer hardware items SSA provided KY-DDS.

We performed work in Frankfort and Louisville, Kentucky, at KY-DDS and KY-CFC offices. We conducted our audit from June 2002 through April 2003 in accordance with generally accepted government auditing standards.

RESULTS OF REVIEW

We determined KY-CFC did not have adequate controls over the accounting and reporting of administrative costs. Our review disclosed KY-CFC reported \$654,427 in unallowable costs on Form SSA-4513 for FYs 1999 through 2001. In addition, we found that inadequate controls caused KY-CFC to draw down \$652,422 less than it reported to SSA for the same period. Consequently, KY-CFC's draw downs only exceeded allowable costs by \$2,005.

In addition, we determined KY-CFC made accounting and reporting errors associated with allowable costs. As a result, KY-CFC incorrectly charged \$858,909 in otherwise allowable costs during the audit period to the wrong FYs and misclassified \$653,499 on Form SSA-4513.

Furthermore, we found that KY-CFC's and KY-DDS' inventory controls were not adequate to ensure an accurate accounting for, and safeguarding of, all equipment items acquired for the disability programs. Our review showed that KY-CFC had improperly described equipment items and listed other items as inventory even though KY-DDS had disposed of them.

Unallowable Costs

KY-CFC reported \$654,427 in unallowable costs⁶ on the Form SSA-4513 for FYs 1999 through 2001 (Appendix C). This amount consisted of

- \$509,395 in reporting errors and unsupported costs,
- \$111,888 in costs applicable to non-SSA work, and
- \$33,144 in costs not applicable to our audit period.

KY-CFC personnel acknowledged these unallowable costs resulted from reporting and clerical errors and computer system problems.

Because KY-CFC drew down \$652,422 less than it reported on Form SSA-4513 during the audit period, draw downs exceeded allowable costs by \$2,005 (see Appendix D). KY-CFC drew down fewer funds for FYs 2000 and 2001 because its reported costs exceeded the obligational authority for those years. KY-CFC under drew funds for FY 1999 because it failed to recognize it had not drawn down these funds. In this instance, the dollar impact on SSA funds is negligible. However, this may not always be the

⁶ In addition to these costs, KY-CFC incurred \$885,676 in excess of its obligational authority for FY 2000. Because these costs were otherwise allowable, SSA plans to increase KY-CFC's funding level to cover this amount.

case. The control deficiencies that permitted the reporting of unallowable costs and the under draw of funds indicate the need for improved accounting and internal controls over SSA funds and the related costs.

Reporting Errors and Unsupported Costs

OMB Circular A-87 requires that costs be adequately supported to be allowable under Federal awards.⁷ However, we found that KY-CFC reported \$509,395 for FYs 1999 and 2000 that its accounting records did not support. This amount consisted of \$472,207 for FY 1999 and \$37,188 for FY 2000. KY-CFC concluded these unallowable costs resulted from reporting and clerical errors.

Non-SSA Work

SSA policy states that, if the State DDS receives a request to make disability determinations on claims not related to Title II and XVI benefits, the requesting agency bears the responsibility for the funding and staffing related to the non-SSA program work.⁸ However, we found that KY-CFC charged SSA \$111,888 in costs applicable to non-SSA work. This amount consisted of \$96,838 in personnel costs for the pay periods ended June 30, 1999 through September 30, 2001 and \$15,050 for the pay period ended November 15, 2001.⁹ Specifically, KY-CFC charged SSA for leave taken and hours worked by individuals who worked on Temporary Assistance for Needy Families (TANF) and Medical Assistance (Medicaid) programs, which are non-SSA programs.

KY-CFC acknowledged its payroll system did not distinguish between those employees working for SSA and those assigned to non-SSA programs when distributing a portion of leave costs among programs, and it failed to notify the State personnel office to update the payroll system to reflect the proper FY. KY-CFC agreed it overcharged SSA for the erroneous personnel costs. In December 2002, KY-CFC changed its payroll system to properly distribute leave costs to the correct program. KY-CFC needs to calculate and refund any additional leave costs it erroneously charged to SSA.

⁷ Attachment A § C.1.j.

⁸ SSA, POMS, DI 39518.040 A.

⁹ KY-CFC erroneously charged payroll costs for the pay period ended November 15, 2001 to FY 2000.

Costs Not Applicable to Audit Period

KY-CFC charged SSA \$33,144 for personnel costs during FY 2000 that were applicable to FY 2002. However, Federal law¹⁰ provides in part, that "...the balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability...." In addition, OMB Circular A-87¹¹ requires that costs charged to a Federal award be allocable to the award and necessary and reasonable for proper and efficient performance and administration of the award. Costs charged to the wrong FY result in inaccurate reporting. This prevents SSA from accurately monitoring the status of States' expenditures and unexpended appropriations. It also reduces SSA's ability to manage the allocation and use of budgeted funds among States.

KY-CFC acknowledged it failed to notify the State personnel office to update the payroll system to reflect the proper FY and agreed it should have charged these personnel costs to FY 2002. In December 2002, KY-CFC changed its payroll system to properly assign personnel costs to the correct FY and correct program.

Accounting/Reporting Errors Related to Allowable Costs

We determined KY-CFC made numerous accounting and reporting errors associated with allowable costs during the audit period. Specifically, KY-CFC

- incorrectly charged \$858,909, otherwise allowable costs, to the wrong FYS.
- misclassified \$653,499 in costs on Form SSA-4513.

KY-CFC personnel acknowledged they incorrectly reported these costs because of clerical and reporting errors.

Costs Charged to Incorrect Fiscal Years During Audit Period

Contrary to the Federal law,¹² we found that KY-CFC charged \$858,909, which was otherwise allowable during the audit period, to the wrong FYS. Of this amount, KY-CFC erroneously (1) transferred \$756,818 in various costs among FYS 1999 through 2001; (2) charged \$82,097 in workers' compensation costs to FY 2000 that it should have charged to FY 2001; and (3) charged \$19,994 in personnel costs to FY 2000 that it should have charged to FY 2001. KY-CFC personnel acknowledged they had

¹⁰ 31 U.S.C. § 1502(a).

¹¹ OMB Circular A-87, Attachment A § C.1.a and b.

¹² 31 U.S.C. § 1502(a).

improperly charged these costs to incorrect FYs because of clerical errors and payroll system problems.

Misclassified Costs

POMS, section DI 39506.210 D, provides State agencies guidance on line item reporting of costs by categories. Because SSA may limit fund expenditures for particular cost categories, it is essential that State agencies accurately report costs. However, we found that KY-CFC misclassified \$653,499 (otherwise allowable costs) it reported to SSA during the audit period. This amount consisted of (1) \$475,482 for consulting services costs; (2) \$176,333 for indirect personnel and operating costs; and (3) \$1,684 for car pool and telephone costs.

KY-CFC agreed it misclassified reported costs. This occurred because KY-CFC was unaware it could not include consulting services costs (other than medical consultants) in personnel costs and did not adequately consider prior cost adjustments. Misclassified costs results in inaccurate reporting and prevents SSA from making reliable comparisons of States' expenditures.

Inventory Controls

POMS, section DI 39530.020 B.3, indicates that each DDS is responsible for the maintenance and inventory of all equipment acquired, whether purchased through SSA or the State. However, KY-CFC's inventory listing was not accurate. For example, we found 13 items KY-CFC designated as missing that were either still in use or had been disposed. In addition, KY-CFC incorrectly described some inventory items. For example, KY-CFC listed 20 Gateway laptop computers as Dell computers. Furthermore, KY-CFC's inventory showed that all of these computers were located in the Louisville, Kentucky, DDS office, but we found that 19 of the computers were in the Frankfort, Kentucky, DDS office.

KY-CFC stated it designated some items as missing because KY-DDS had not placed inventory tags on the items. However, we found inventory tags on all the items we examined. KY-CFC acknowledged it had inventory problems and indicated it planned to take over the responsibility from KY-DDS for labeling newly purchased items. KY-DDS indicated it intended to maintain an independent list of purchased equipment, in addition to the list maintained by KY-CFC. Failure to maintain a current and accurate inventory list reduces DDS' ability to properly safeguard its assets.

CONCLUSIONS AND RECOMMENDATIONS

KY-CFC needs to improve its controls over the accounting and reporting of administrative costs. In addition, we believe KY-CFC needs to ensure costs claimed are allowable and properly allocated and that funds are properly drawn. Furthermore, KY-CFC and KY-DDS need to strengthen their inventory controls.

We recommend that SSA instruct KY-CFC to:

1. Implement additional accounting and reporting controls to ensure all obligations reported to SSA are adequately supported, allocable to the Federal DDS program, charged to the correct FY, and properly classified on Form SSA-4513.
2. Submit revised Forms SSA-4513 for FYs 1999 through 2001 to reflect the proper costs. SSA should limit KY-CFC's funding authority to allowable costs.
3. Refund \$2,005 to SSA for funds it drew down in excess of allowable costs.
4. Determine the amount of the additional TANF/Medicaid costs charged to FYs 2002 and 2003 (not included in our audit period), and make the proper adjustments on Forms SSA-4513.
5. Reclassify \$33,144 in personnel costs it erroneously charged to FY 2000 as FY 2002 costs.
6. Strengthen its cash management controls to ensure it timely draws down funds and does not exceed allowable costs.
7. Work with the KY-DDS to strengthen inventory controls to ensure it maintains a current and accurate inventory listing and properly labels new equipment items to safeguard DDS assets.

AGENCY COMMENTS AND OFFICE OF THE INSPECTOR GENERAL RESPONSE

SSA and KY-CFC agreed with our recommendations. KY-CFC has either taken action or is in the process of taking action to comply with the recommendations. See Appendices E and F for the full text of comments from SSA and KY-CFC.



Steven L. Schaeffer

Appendices

APPENDIX A – Acronyms

APPENDIX B – Sampling Methodology

APPENDIX C – Kentucky Department for Disability Determination Services
Reported Versus Allowed Obligations

APPENDIX D – Comparison of Draw Downs, Reported Costs and Audit
Adjustments

APPENDIX E – Social Security Administration Comments

APPENDIX F – Kentucky Cabinet for Families and Children Comments

APPENDIX G – OIG Contacts and Staff Acknowledgments

Acronyms

Act	Social Security Act
C.F.R.	Code of Federal Regulations
DI	Disability Insurance
DDS	Disability Determination Service
FY	Fiscal Year
KY-CFC	Kentucky Cabinet for Families and Children
KY-DDS	Kentucky Department for Disability Determinations
Medicaid	Medical Assistance
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSI	Supplemental Security Income
TANF	Temporary Assistance for Needy Families
Treasury	Department of Treasury
U.S.C.	United States Code

Appendix B

Sampling 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 Non-personnel Costs. We obtained computerized data from the Kentucky Department for Disability Determination Services (KY-DDS) and the State Comptroller's Office for Fiscal Years (FY) 1999 through 2001 for use in statistical sampling. After selecting and reviewing randomly selected samples, we did not identify errors we felt warranted audit projection.

Personnel Costs

We judgmentally sampled 16 transactions for review. The transactions comprised eight payroll transactions and eight payments to medical consultants. We selected five transactions each for FYs 1999 and 2001 and six transactions for FY 2000. We tested Kentucky Cabinet for Families and Children's (KY-CFC) payroll records to ensure it correctly paid employees and adequately documented these payments. We examined medical consultant payments to ensure KY-CFC paid at the contracted rate and adequately documented these payments.

Medical Costs

We sampled 150 items (50 items from each FY) using a stratified random sample. We distributed the sample items between Medical Evidence of Record and consultative examinations based on the proportional distribution of the total medical costs for each year between Medical Evidence of Records and consultative examinations.

Indirect Costs

KY-CFC allocates departmental indirect costs monthly among its various programs. We reviewed a judgmentally selected monthly allocation for each FY. We examined KY-CFC's allocation of State-wide indirect costs for FY 2001.

All Other Non-personnel Costs

We selected a stratified random sample of 150 items (50 items from each FY¹) from the All Other Non-personnel Costs category (excluding records for office space rental costs

¹ KY-CFC provided documentation for 35 of the first 50 records we requested for FY 1999. We used 50 replacements to obtain 15 additional units needed to complete our desired sample size for this year. This was necessary because KY-CFC had problems retrieving documentation from its archives. KY-CFC did not have problems obtaining documentation we requested for FYs 2000 and 2001.

and other amounts of \$50,000 or more). Before selecting the sample items, we sorted the transactions into the following clusters: (1) Applicant Travel, (2) Other Travel, (3) Communications, (4) Equipment, (5) Contracted Services, (6) Rental (Not Occupancy Costs), (7) Electronic Data Processing/Word Processing Costs, and (8) Miscellaneous. We then distributed the 50 sample items for each year between clusters based on the proportional distribution of the costs. We also reviewed five judgmentally selected records each year for office space rental costs. We performed a separate review of all records included in the All Other Non-personnel Costs Category equal to or greater than \$50,000.

Appendix C

KENTUCKY DEPARTMENT FOR DISABILITY DETERMINATION SERVICES REPORTED VERSUS ALLOWED OBLIGATIONS

Federal Fiscal Year (FY) 1999					
	Disbursements				
	Personnel	Medical	Indirect	All Other	Total
As Reported by the Kentucky Department for Disability Determination Services (KY-DDS)*	\$18,524,259	\$9,232,779	\$2,179,225	\$3,740,958	\$33,677,221
Audit Adjustments:					
Unallowable Costs					
Reporting Errors	(1,161,488)	(343,683)	692,759	340,205	(472,207)
Unsupported Costs	0	0	0	0	0
Non-Social Security					
Administration (SSA) Work	(13,457)	0	0	0	(13,457)
Accounting/Reporting Errors					
Costs Not Applicable to Audit Period	0	0	0	0	0
Costs Charged to Incorrect FY	76,227	0	6		76,233
Misclassified Costs	<u>1,261¹</u>	<u>0</u>	<u>(2,134)¹</u>	<u>873¹</u>	<u>0</u>
Total Adjustments	<u>(1,097,457)</u>	<u>(343,683)</u>	<u>690,631</u>	<u>341,078</u>	<u>(409,431)</u>
Allowed as a Result of Audit	<u>\$17,426,802</u>	<u>\$8,889,096</u>	<u>\$2,869,856</u>	<u>\$4,082,036</u>	<u>\$33,267,790</u>

* Includes \$8,022 reported for Automation Investment Funds expenditures in the All Other Non-personnel Costs category. KY-CFC could not support this amount and we included it in the total adjustments figure.

FY 2000					
	Disbursements				
	Personnel	Medical	Indirect	All Other	Total
As Reported by the KY-DDS	\$19,582,387	\$8,795,699	\$2,138,339	\$3,918,320	\$34,434,745
Audit Adjustments:					
Unallowable Costs					
Reporting Errors	0	(301)	87,853	(87,853)	(301)
Unsupported Costs	(36,887)	0	0	0	(36,887)
Non-SSA Work	(56,998)	0	0	0	(56,998)
Costs Not Applicable to Audit Period	(33,144)	0	0	0	(33,144)
Accounting/Reporting Errors					
Costs Charged to Incorrect FY	(3,013)	639,166	(82,097)	0	554,056
Misclassified Costs	<u>(131,960)²</u>	<u>0</u>	<u>(172,065)³</u>	<u>304,025⁴</u>	<u>0</u>
Total Adjustments	<u>(262,002)</u>	<u>638,865</u>	<u>(166,309)</u>	<u>216,172</u>	<u>426,726</u>
Allowed as a Result of Audit	<u>\$19,320,385</u>	<u>\$9,434,564</u>	<u>\$1,972,030</u>	<u>\$4,134,492</u>	<u>\$34,861,471</u>

KENTUCKY DEPARTMENT FOR DISABILITY DETERMINATION SERVICES REPORTED VERSUS ALLOWED OBLIGATIONS

FY 2001					
	Personnel	Medical	Disbursements Indirect	All Other	Total
As Reported by the KY-DDS	\$20,206,944	\$10,071,548	\$2,185,681	\$4,710,639	\$37,174,812
Audit Adjustments:					
Unallowable Costs					
Reporting Errors	(211)	0	2	209	0
Unsupported Costs	0	0	0	0	0
Non-SSA Work	(41,433)	0	0	0	(41,433)
Costs Not Applicable to Audit Period	0	0	0	0	0
Accounting/Reporting Errors					
Costs Charged to Incorrect FY	(73,220)	(639,166)	82,097		(630,289)
Misclassified Costs	<u>(288,613)⁵</u>	<u>0</u>	<u>174,199⁶</u>	<u>114,414⁷</u>	<u>0</u>
Total Adjustments	<u>(403,477)</u>	<u>(639,166)</u>	<u>256,298</u>	<u>114,623</u>	<u>(671,722)</u>
Allowed as a Result of Audit	<u>\$19,803,467</u>	<u>\$ 9,432,382</u>	<u>\$2,441,979</u>	<u>\$4,825,262</u>	<u>\$36,503,090</u>

All Years					
	Personnel	Medical	Disbursements Indirect	All Other	Total
As Reported by the KY-DDS*	\$58,313,590	\$28,100,026	\$6,503,245	\$12,369,917	\$105,286,778
Audit Adjustments:					
Unallowable Costs					
Reporting Errors	(1,161,699)	(343,984)	780,614	252,561	(472,508)
Unsupported Costs	(36,887)	0	0	0	(36,887)
Non-SSA Work	(111,888)	0	0	0	(111,888)
Costs Not Applicable to Audit Period	(33,144)	0	0	0	(33,144)
Accounting/Reporting Errors					
Costs Charged to Incorrect FY	(6)	0	6	0	0 ⁸
Misclassified Costs	<u>(419,312)</u>	<u>0</u>	<u>0</u>	<u>419,312</u>	<u>0⁹</u>
Total Adjustments	<u>(1,762,936)</u>	<u>(343,984)</u>	<u>780,620</u>	<u>671,873</u>	<u>(654,427)</u>
Allowed as a Result of Audit	<u>\$56,550,654</u>	<u>\$27,756,042</u>	<u>\$7,283,865</u>	<u>\$13,041,790</u>	<u>\$104,632,351</u>

* Includes \$8,022 reported for Automation Investment Funds expenditures in the All Other Non-personnel Costs category.
KY-CFC could not support this amount and we included it in the total adjustments figure.

Table Notes

1. These amounts represent indirect costs KY-CFC transferred among FYs.
2. KY-CFC reported \$276,385 of consulting services as personnel costs. The costs should have been reported as All Other Non-personnel Costs. During our review, we identified \$144,425 (\$86,570 indirect costs and \$57,855 in other non-personnel costs), which KY-CFC transferred among FYs. This resulted in a net adjustment of \$131,960.
3. We identified \$86,570 indirect personnel costs and \$85,495 indirect operating expenses, which KY-CFC transferred among FYs. This resulted in KY-CFC reporting these amounts as Personnel Services Costs and All Other Non-personnel Costs.
4. KY-CFC reported \$276,385 of consulting services as personnel costs, but it should have reported them as All Other Non-personnel Costs. We identified \$57,855 other non-personnel costs and \$85,495 indirect operating expenses (net of \$27,640), which KY-CFC had transferred among FYs and classified as Personnel Services Costs and All Other Non-personnel Costs for reporting purposes. These transactions resulted in a net adjustment of \$304,025.
5. KY-CFC reported \$142,097 of consulting services as personnel costs. KY-CFC should have reported these costs as All Other Non-personnel Costs. We also identified \$87,832 indirect personnel costs and \$58,684 other non-personnel costs, which KY-CFC transferred among FYs and subsequently misclassified as Personnel Services Costs for reporting purposes.
6. We identified \$87,832 indirect personnel costs and \$86,367 indirect operating expenses, which KY-CFC transferred among FYs and misclassified as Personnel Services Costs and All Other Non-personnel Costs for reporting purposes.
7. KY-CFC reported \$142,097 of consulting services as personnel costs. KY-CFC should have reported these costs as All Other Non-personnel Costs. We also identified \$58,684 other non-personnel costs and \$86,367 indirect operating expenses, which KY-CFC transferred among FYs and subsequently reported as Personnel Services Costs and All Other Non-personnel Costs.
8. KY-CFC charged \$858,909 costs, which were otherwise allowable during the audit period, to the wrong FYs. Because the various amounts comprising this figure represent debits to a particular year(s) with corresponding credits to another year(s), they net to zero.
9. KY-CFC misclassified \$653,499 of costs it reported to SSA during the audit period. Because we made debits and corresponding credits to the cost categories shown in this schedule, the adjustments net to zero.

Appendix D

Comparison of Draw Downs, Reported Costs and Audit Adjustments

	Fiscal Years			
	1999	2000	2001	Total
A. Draw Downs	\$33,517,686	\$34,209,246	\$36,907,424	\$104,634,356
B. Cost Reported	<u>\$33,677,221</u>	<u>\$34,434,745</u>	<u>\$37,174,812</u>	<u>\$105,286,778</u>
C. Difference (A. Minus B.)	\$ (159,535)	\$ (225,499)	\$ (267,388)	\$ (652,422)
D. Audit Adjustments (Unallowable costs)	<u>\$ (409,431)</u>	<u>\$ 426,726</u>	<u>\$ (671,722)</u>	<u>\$ (654,427)</u>
E. Amount to be Refunded (C. Minus D.)	<u>\$ 249,896</u>	<u>\$ (652,225)</u>	<u>\$ 404,334</u>	<u>\$ 2,005*</u>

* As shown above, we made audit adjustments of \$654,427 for unallowable costs we identified during the audit. Because KY-CFC drew down \$652,422 less than it reported, it needs to refund \$2,005.

Social Security Administration Comments



SOCIAL SECURITY

MEMORANDUM

Date: September 17, 2003

Refer To: K Killam 2-5727

To: Assistant Inspector General for Audit

From: Regional Commissioner
Atlanta

Subject: Kentucky State DDS Audit -- RESPONSE to Your Memorandum Dated August 18, 2003

Thank you for the opportunity to comment on the validity of the facts and reasonableness of the recommendations presented in your report of the audit (# A-08-03-13007) on the Administrative Costs Claimed by the Kentucky Disability Determination Services (DDS).

We are concerned about the audit's finding that the Kentucky Cabinet for Families and Children (CFC) and the Kentucky DDS did not have adequate internal controls over the accounting and reporting of administrative costs and the draw downs of SSA funds. However, we concur with the facts as presented in the Audit Report and agree that the seven (7) recommendations are reasonable. Our specific response to the recommendations is as follows:

1. Instruct KY-CFC to implement additional accounting and reporting controls to ensure all obligations reported to SSA are adequately supported, allocable to the Federal DDS program, charged to the correct FY, and properly classified on Form SSA-4513.

We concur with this recommendation and the Parent Agency (CFC) has already taken action to implement changes. Specifically, copies of monthly/quarterly system generated Seagate Reports are being maintained by Division of Financial Management. This Division is maintaining documentation for expenditure corrections.

2. The CFC should submit revised Forms SSA-4513 for FY 1999 through 2001 to reflect the proper costs. SSA should limit KY-CFC's funding authority to allowable costs.

We concur with this recommendation. The CFC will submit revised Forms SSA-4513 for FY 1999 through FY 2001 to reflect proper costs. Further, funding authority for FY 1999 through FY 2001 will be limited to the allowable costs as determined by the auditors.

3. Refund the \$2,005 to SSA for funds it drew down in excess of allowable costs.

We concur with this recommendation and the CFC has already prepared a refund check for \$2,005 payable to SSA.

4. Determine the amount of the additional TANF/Medicaid costs charged to FY's 2002 and 2003 (not included in the audit period), and make the proper adjustments on Forms SSA-4513.

We concur with this recommendation. In December 2002, the KY-CFC changed its payroll system to properly distribute leave costs to the correct program. The CFC has calculated the amounts overcharged to SSA for 2002 and 2003 and those amounts were included in the SSA-4513 that was submitted for the quarter ending June 30, 2003.

5. Reclassify \$33,144 in personnel costs it erroneously charged to FY 2000 as FY 2002 costs.

We concur with this recommendation and the CFC has already taken action to correct this error. The correct FY 2002 amount was incorporated in the SSA-4513 quarterly report that was submitted June 30, 2003. The correct FY 2000 amount has been incorporated in the revised FY 2000 SSA-4513 quarterly report and will be submitted by the end of September 2003.

6. The Parent Agency should strengthen its cash management controls to ensure it timely draws down funds and does not exceed allowable costs.

We concur with this recommendation and the CFC has already changed their procedure. The CFC will now draw down funds on a weekly basis for the first year of each Grant year. Then each quarter following the end of the first full Grant year, the CFC will draw funds on a quarterly basis for the previous year. The CFC believes that by following this procedure, the funds drawn should properly reflect actual expenditures for the Grant period.

7. The Parent Agency should work with the KY-DDS to strengthen inventory controls to ensure it maintains a current and accurate inventory listing and properly labels new equipment items to safeguard DDS assets.

We concur with this recommendation. The CFC has already assumed responsibility for maintaining the inventory for the DDS, and the KY-DDS will maintain an independent list of inventory. Additionally, labels will be placed on all property acquired or that SSA furnishes it to perform disability determination functions. We will work with the DDS and the CFC to ensure that oversights of this nature do not occur in the future.

Please contact me if I can be of further assistance. Staff questions should be referred to Karen Killam (404) 562-5727 or Eleanor Barrineau at (404) 562-1417.

Paul D. Barnes

Attachments

cc: Ms. Viola P. Miller, ED.D
Mr. Stephen Jones, Kentucky DDS

Appendix F

Kentucky Cabinet for Families and Children Comments

September 17, 2003

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

Re: OIG Financial Audit A-08-03-13007

Please accept this letter and the attachments as the Cabinet for Families and Children's response to the above-referenced audit. The attachments include: revised copies of "Report 4513" for all fiscal years requested and a refund check in the amount of \$2,005.00.

This Cabinet takes all audit findings seriously and has taken the steps it deemed appropriate to address the problems associated with the above-referenced audit and to eliminate the likelihood of finding similar problems in future audits. In addressing many of the issues outlined in your report, it is very important to note that the Commonwealth of Kentucky implemented a new statewide accounting system July 1, 1999.

Transitioning to this new accounting system was a slow and arduous process. The training for grant accounting was conducted on a trial and error basis that produced many errors. The fact that the Cabinet staff is now very familiar with the state accounting system greatly reduces the possibility of finding similar problems in future audits.

All of the issues detailed in your audit are more fully addressed in the following commentary:

Finding 1 - The Cabinet for Families and Children should implement additional accounting and reporting controls to ensure all obligations reported to SSA are adequately supported, allocable to the Federal DDS program, charged to the correct FY, and properly classified on Form SSA-4513.

Management's Response and Corrective Action Plan

The Cabinet agrees that adequately supported documentation should be maintained to support Form SSA-4513. Copies of monthly/quarterly system generated Seagate Reports are being maintained by the Division of Financial Management. The Division is maintaining documentation for all expenditure corrections.

Finding 2 – The Cabinet should submit revised Forms SSA-4513 for FY's 1999 through 2001 to reflect the proper costs. SSA should limit KY-CFC's funding authority to allowable costs.

Management's Response and Corrective Action Plan

Revised Forms SSA-4513 for FY's 1999 through 2001 to reflect proper costs are attached to this letter.

Finding 3 – The Cabinet will refund \$2,005 for funds it drew down in excess of allowable costs.

Management's Response and Corrective Action Plan

A refund check in the amount of \$2,005 is attached to this letter.

Finding 4 – The Cabinet should determine the amount of the additional TANF/Medicaid costs charged to FY's 2002 and 2003 (not included in our audit period), and make the proper adjustments on Forms SSA-4513.

Management's Response and Corrective Action Plan

The Cabinet agrees that TANF/Medicaid costs were charged to SSA in error and in December 2002, KY-CFC changed its payroll system to properly distribute leave cost to the correct program. The Cabinet has calculated the amounts overcharged to SSA for 2002 and 2003 and those amounts were included in the 4513 Report that was submitted for the quarter ending June 30, 2003.

Finding 5 – The Cabinet will reclassify \$33,144 in personnel costs it erroneously charged to FY 2000 as FY 2002 cost.

Management's Response and Corrective Action Plan

The Cabinet agrees that \$33,144 was charged for personnel costs during FY 2000 but costs were applicable to FY 2002. The FY 2002 amount was incorporated in the 4513 Quarterly Report submitted June 30, 2003. The FY 2000 amount has been incorporated in the revised FY 2000 4513 Quarterly Report that is attached to this audit response.

Finding 6 – The Cabinet should strengthen its cash management controls to ensure it timely draws down funds and does not exceed allowable costs.

Management's Response and Corrective Action Plan

The Cabinet will draw down funds on a weekly basis for the first year of each grant and each quarter following the end of the first full grant year; the Cabinet will draw funds on a quarterly basis for the previous grant year. In doing so the funds drawn should reflect actual expenditures for the grant period.

Finding 7 – The Cabinet will work with the KY-DDS to strengthen inventory controls to ensure it maintains a current and accurate inventory listing and properly labels new equipment items to safeguard DDS assets.

Management's Response and Corrective Action Plan

The Cabinet agrees that the inventory controls should be strengthened to ensure it maintains an accurate inventory listing. KY-CFC has taken over the responsibility and will now maintain the inventory for DDS. A property officer of CFC will physically tag all inventory items for Disability. This will ensure that the tags are physically placed on the items specified on the purchase order.

Sincerely,

Viola Miller, Secretary
Cabinet for Families and Children

Attachments

CC: Eleanor Barrineau
Karen Killam
Stephen Jones

Appendix G

OIG Contacts and Staff Acknowledgments

OIG Contacts

Walter Bayer, Director, (215) 597-4080

Jeff Pounds, Deputy Director, (205) 801-1606

Acknowledgments

In addition to those named above:

Cliff McMillan, Senior Auditor

Susan Phillips, Auditor

Kimberly Beauchamp, Writer/Editor

For additional copies of this report, please visit our web site at www.ssa.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-1375. Refer to Common Identification Number A-08-03-13007.

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

Office of Executive Operations

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

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

Counsel to the Inspector General

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