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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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

**March 2006**

**A-06-06-16008**

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**AUDIT REPORT**

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## **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.**

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- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
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- Access to all information necessary for the reviews.**
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## SOCIAL SECURITY

### **MEMORANDUM**

**Date:** March 23, 2006 **Refer To:**

**To:** Ramona Schuenemeyer  
Regional Commissioner  
Dallas

**From:** Inspector General

**Subject:** Administrative Costs Claimed by the Texas Disability Determination Services  
(A-06-06-16008)

### **OBJECTIVE**

Our objectives were to (1) determine whether costs claimed on the *State Agency Report of Obligations for SSA Disability Programs* for the period October 1, 2001 through September 30, 2004 were allowable and funds were properly drawn; (2) evaluate Texas Disability Determination Services' (TX-DDS) internal controls over the accounting and reporting of administrative costs; and (3) perform a limited review to assess the general security control environment.

### **BACKGROUND**

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

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by Disability Determination Services (DDS) in each State, Puerto Rico and the District of Columbia in accordance with Federal regulations.<sup>1</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each

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<sup>1</sup> 20 Code of Federal Regulations (C.F.R.) §§ 404.1601 *et seq.* and 416.1001 *et seq.*

DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system to pay for program expenditures. Funds drawn down must comply with Federal regulations<sup>2</sup> and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.<sup>3</sup> An advance or reimbursement for costs under the program must comply with Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the Fiscal Year (FY), each DDS submits a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) to account for program disbursements and unliquidated obligations for the FY.<sup>4</sup> The Form SSA-4513 reports expenditures and unliquidated obligations for Personnel Service Costs, Medical Costs, Indirect Costs, and All Other Nonpersonnel Costs.

TX-DDS is a component of the Texas Department of Assistive and Rehabilitative Services (TX-DARS) and is located in Austin, Texas. TX-DARS completes and submits Forms SSA-4513 and prepares requests to transfer cash from Treasury to the State Treasurer. As of September 30, 2005, TX-DARS had reported program disbursements and unliquidated obligations on Form SSA-4513 as shown on the table below.

Amounts Reported as Disbursements and Unliquidated Obligations for TX-DDS			
Reporting Item	FY 2002	FY 2003	FY 2004
Disbursements			
Personnel	\$46,342,087	\$46,757,531	\$47,399,479
Medical	34,300,218	33,378,558	33,658,262
Indirect Costs	11,063,618	10,226,336	8,344,138
Other Nonpersonnel	8,220,532	8,271,473	9,597,095
Total Disbursements	\$99,926,455	\$98,633,898	\$98,998,974
Unliquidated Obligations	\$0	\$0	\$40,157
Total Obligations	\$99,926,455	\$98,633,898	\$99,039,131

<sup>2</sup> 31 C.F.R. § 205.1 et seq.

<sup>3</sup> Public Law 101-453.

<sup>4</sup> SSA, Program Operations Manual System (POMS), DI 39506.200 B.4, *The Reporting Process – Recording and Reporting Obligations* states, “Unliquidated obligations represent obligations for which payment has not yet been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received.”

## **RESULTS OF REVIEW**

For FYs 2002, 2003 and 2004, disbursements charged to SSA for TX-DDS operations were generally allowable and funds were properly drawn. However, the State improperly charged payments totaling \$778,111 to terminated employees for unused leave and could not support unliquidated obligations totaling \$40,157 for FY 2004.

### **PAYMENT OF UNUSED LEAVE TO TERMINATED EMPLOYEES**

TX-DDS improperly charged costs associated with the payment of unused leave for terminated employees. These costs were charged as direct costs and indirect costs. Such costs should have only been allocated indirectly as general administrative expenses across all activities of the governmental unit or component. In FYs 2002, 2003, and 2004, employees who separated from service were given lump-sum payments totaling \$219,969, \$383,271, and \$174,871, respectively.

Federal regulations state that payments for unused leave for employees who terminate their employment through retirement or other separation are allowable "...provided they are allocated as a general administrative expense to all activities of the governmental unit or component."<sup>5</sup> Thus, the costs are not allowable as direct charges. Additionally, on July 31, 2002, the Acting Associate Commissioner for Disability sent DDS Administrators' Letter No. 615 reminding the administrators of the correct procedure for reporting payments for accumulated leave or severance pay when an individual leaves employment. The letter, which was effective July 31, 2002, urged DDSs to examine their indirect cost agreements to ensure they are structured to account for payment of unused leave to retired/terminated employees in accordance with OMB Circular A-87.

### **UNLIQUIDATED OBLIGATIONS REPORTED ON FORM SSA-4513 WERE NOT SUPPORTED**

The TX-DARS was unable to support \$40,157 reported as an unliquidated obligation for FY 2004. Absent supporting documentation, we were unable to determine the nature of the obligation, the allowability of the amount reported, the existence of the obligation in the Federal FY or the creation of the liability. Per SSA guidance, "Valid obligations should be supported by documents/records that describe the nature of the obligations and support the amounts recorded."<sup>6</sup>

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<sup>5</sup> OMB Circular A-87, Attachment B, Section 8.d (3). (Revised 5/10/04).

<sup>6</sup> SSA, POMS, DI 39506.200 B.1., The Reporting Process - Recording and Reporting Obligations.

## **CONCLUSION AND RECOMMENDATIONS**

In general, TX-DDS disbursements charged to SSA for FYs 2002, 2003, and 2004 were allowable and funds were properly drawn. However, the State improperly charged payments totaling \$778,111 to terminated employees for unused leave and could not support unliquidated obligations totaling \$40,157 for FY 2004.

We recommend that SSA instruct the TX-DDS to:

1. Refund costs charged to SSA for unused leave payments for TX-DDS employees who terminated their employment through retirement or other separation. This consisted of \$219,969 identified during FY 2002; \$383,271 during FY 2003; and \$174,871 during FY 2004.
2. Deobligate \$40,157 from the FY 2004 Form SSA-4513.

## **AGENCY COMMENTS**

SSA agreed with our recommendations. Regarding Recommendation 1, SSA stated it will provide Texas with instructions on how to process this refund. To address Recommendation 2, SSA stated Texas is working on a change to its accounting system that will prevent this type of finding in the future. See Appendix D for the full text of the Agency's comments.

## **STATE AGENCY COMMENTS**

The TX-DDS agreed with our recommendations. See Appendix E for the full text of the TX-DDS' comments.

## **OIG RESPONSE**

We appreciate the comments received from SSA and TX-DDS and believe the responses and planned actions adequately address our recommendations.



Patrick P. O'Carroll, Jr.

# **Appendices**

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**APPENDIX A** – Acronyms

**APPENDIX B** – Scope and Methodology

**APPENDIX C** – Texas Disability Determination Services’ Schedule of Disbursements, Obligations, Audit Adjustments, and Disbursements Allowed

**APPENDIX D** – Agency Comments

**APPENDIX E** – State Agency Comments

**APPENDIX F** – OIG Contacts and Staff Acknowledgments

## **Appendix A**

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### **Acronyms**

C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
OMB	Office of Management and Budget
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
Treasury	Department of the Treasury
TX-DARS	Texas Department of Assistive and Rehabilitative Services
TX-DDS	Texas Disability Determination Services

### **Scope and Methodology**

We reviewed the administrative costs the Texas Disability Determination Services (TX-DDS) reported to the Social Security Administration (SSA) on *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for the period October 1, 2001 through September 30, 2004. We obtained sufficient evidence to evaluate administrative costs in terms of their allowability under Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and appropriateness as defined by SSA's Program Operations Manual System (POMS). The TX-DDS reported total obligations of \$99,926,455 in Fiscal Year (FY) 2002, \$98,633,898 in FY 2003 and \$99,039,131 in FY 2004 as of September 2005.

To accomplish our audit objectives, we

- Reviewed applicable Federal laws and regulations, pertinent parts of SSA's POMS and other instructions pertaining to administrative costs incurred by TX-DDS and the draw down of SSA funds.
- Obtained computerized data from the State to support amounts reported on Form SSA-4513 and tested the reliability of the data by comparing disbursements, by category and in total, with amounts reported on Form SSA-4513.
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures.
- Reconciled the accounting records to the costs reported by TX-DDS on its Form SSA-4513 for FYs 2002, 2003, and 2004.
- Reviewed TX-DDS' policies and procedures related to personnel, medical, indirect, and non-personnel costs.
- Interviewed staff from SSA, Texas Department of Assistive and Rehabilitative Services, and TX-DDS.
- Documented our understanding of the TX-DDS' system of internal controls over the accounting and reporting of administrative costs.
- Conducted limited general control testing related to physical access security and security within the TX-DDS.

- Selected a random sample of personnel, medical, and non-personnel costs.
  - Reviewed a sample of 50 employees from one pay period in May 2004 and traced information to accounting records, timesheets, and personnel files.
  - Selected all 46 medical consultants on the TX-DDS staff paid during one pay period in May 2004 to determine whether the consultants were licensed and if payments to the consultants complied with the terms of their employment contract.
  - Sampled medical cost payments for Medical Evidence of Record and Consultative Examination payments and reviewed a sample of 50 medical cost payments per year from FY 2002, FY 2003, and FY 2004.
  - Reviewed a sample of 50 All Other Nonpersonnel Cost payments per year from FYs 2002, 2003, and 2004.
- Examined indirect costs claimed by TX-DDS for FYs 2002, 2003, 2004 and the corresponding indirect cost rate agreements.

The entity audited was the TX-DDS within the Texas Department of Assistive and Rehabilitative Services. We performed our audit at the TX-DDS State Office and Texas Department of Assistive and Rehabilitative Services in Austin, Texas, and at the SSA Regional Office in Dallas, Texas. Our audit was conducted from June 2005 through January 2006. We conducted our audit in accordance with generally accepted government auditing standards.

## **Appendix C**

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### **Texas Disability Determination Services' Schedule of Disbursements, Obligations, Audit Adjustments, and Disbursements Allowed**

Description	Disbursements Reported	Unliquidated Obligations	Audit Adjustments	Disbursements Allowed
<b>FY 2002</b>				
Personnel	\$46,342,087		(\$219,969)	\$46,122,118
Medical	34,300,218		0	34,300,218
Indirect	11,063,618		0	11,063,618
All Other	8,220,532		0	8,220,532
Totals	\$99,926,455		(\$219,969)	\$99,706,486
<b>FY 2003</b>				
Personnel	\$46,757,531		(\$383,271)	\$46,374,260
Medical	33,378,558		\$0	\$33,378,558
Indirect	10,226,336		\$0	\$10,226,336
All Other	8,271,473		\$0	\$8,271,473
Totals	\$98,633,898		(\$383,271)	\$98,250,627
<b>FY 2004</b>				
Personnel	\$47,399,479		(\$174,871)	\$47,224,608
Medical	33,658,262	\$34,766	(34,766)	33,658,262
Indirect	8,344,138	3,525	(3,525)	8,344,138
All Other	9,597,095	1,866	(1,866)	9,597,095
Totals	\$98,998,974	\$40,157	(\$215,028)	\$98,824,103

## **Agency Comments**



## SOCIAL SECURITY

### MEMORANDUM

Date: March 6, 2006

To: Patrick P. O'Carroll, Jr  
Inspector General

From: Ramona Schuenemeyer  
Regional Commissioner  
Dallas

Subject: Administrative Costs Claimed by the Texas Disability Determination Services  
(A-06-06-16008) -- Reply

We appreciate the opportunity to comment on this draft audit report. We agree with both of the recommendations and are working with the DDS to implement the necessary changes. We would like to thank the OIG Audit staff in the Dallas Region for the excellent manner in which they were able to organize and perform this audit. We certainly appreciate their efforts to keep all parties informed of their progress during the course of the audit.

Our responses to the recommendations contained in the narrative report are as follows:

1. Refund costs charged to SSA for unused leave payments for TX-DDS employees who terminated their employment through retirement or other separation. This consisted of \$219,969 identified during FY 2002, \$383,271 during FY 2003, and \$174,871 during FY 2004.

We concur with this recommendation. We will provide the State of Texas with instructions on how to process this refund.

2. Deobligate \$40,157 from the FY 2004 Form SSA-4513.

We concur with the recommendation. The State of Texas is working on a change to their accounting system that will prevent this type of finding in the future. Texas will make additional efforts to verify these obligations should be cancelled and will take appropriate action.

If you would like to discuss this, please call me. If your staff has questions, please have them call Tom Berling at (214) 767-4281 in Management and Operations Support, Center for Disability.

## **Appendix E**

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### **State Agency Comments**



# TEXAS

Department of Assistive  
and Rehabilitative Services

Terrell I. Murphy  
*Commissioner*

March 10, 2006

Patrick P. O'Carroll Jr.  
Social Security Administration, Office of Inspector General  
6401 Security Blvd\4-L-1 OPER  
Baltimore, Maryland 21235-001

RE: Texas Response to OIG Findings

Dear Mr. O'Carroll:

Finding one: Refund costs charged to SSA for unused leave payments for TX-DDS employees who terminated their employment through retirement or other separation. This consisted of \$219,969 identified during FY 2002; \$383,271 during FY 2003; and \$174,871 during FY 2004.

Response: We concur with this recommendation. Dallas Regional Office will provide us with instructions on how to process this refund.

Finding two: Deobligate \$40,157 from the FY 2004 Form SSA-4513.

Response: While we concur that the State of Texas could not provide supporting documentation for these unliquidated obligations, we are working on a change to our accounting system that will prevent this type of finding in the future. Texas will continue verifying expenditures and canceling remaining obligations as necessary in conjunction with the Dallas regional office. As of December 31, 2005 the unliquidated obligations total \$24,950 and we anticipate finalizing FY 2004 by the end of FY 2006.

Please contact James Dawson, DARS Accounting Director at (512) 424-4601 if you have any questions.

Sincerely,

A handwritten signature in black ink that reads "W.R. Wheeler".

William R. Wheeler  
Chief Financial Officer

## *Partnerships for Independence*

P.O. BOX 12866, AUSTIN, TX 78711 ♦ ADMINISTRATIVE BUILDING, 4800 N. LAMAR BLVD., AUSTIN, TX 78756  
TEL., TDD, VOICE: (512) 377-0800 ♦ FAX: (512) 377-0682

# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Paul Davila, Director, (214) 767-6317

Paul Wood, Audit Manager, (214) 767-0058

### ***Acknowledgments***

In addition to those named above:

Lela Cartwright, Auditor-in-Charge

Ashley Moore, Auditor

Wanda Renteria, Auditor

Clara Soto, Auditor

Warren Wasson, Auditor

Joshua Campos, Auditor

Brennan Kraje, Statistician

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