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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 OHIO BUREAU OF  
DISABILITY DETERMINATION**

**May 2005                  A-05-04-14028**

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**AUDIT REPORT**

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## **Mission**

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## SOCIAL SECURITY

### MEMORANDUM

Date: May 27, 2005

Refer To:

To: James F. Martin  
Regional Commissioner  
Chicago

From: Inspector General

Subject: Administrative Costs Claimed by the Ohio Bureau of Disability Determination  
(A-05-04-14028)

### OBJECTIVES

The objectives of our audit were to evaluate the Ohio Bureau of Disability Determination's (OH-BDD) internal controls over the accounting and reporting of administrative costs, determine whether costs claimed by the OH-BDD were allowable and funds were properly drawn, and assess limited areas of the general security controls environment. Our audit included the administrative costs claimed by the OH-BDD during Fiscal Years (FY) 2001 and 2002.

### 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.

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.<sup>1</sup> In carrying out its obligation, each DDS is responsible for

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<sup>1</sup> 42 U.S.C. §§ 421 and 1383b; 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations.<sup>2</sup> To assist in making proper disability determinations, each DDS is authorized by SSA to purchase consultative examinations (CE), such as x-rays and laboratory tests, to supplement evidence obtained from the claimants' physicians or other treating sources.<sup>3</sup> See Appendix A for the scope and methodology of our audit.

The Ohio Rehabilitation Services Commission (OH-RSC) is the OH-BDD's parent agency. The OH-BDD is located in Columbus, Ohio.

## **RESULTS OF REVIEW**

Our review of administrative costs disclosed that the OH-BDD claimed unallowable indirect costs of \$132,154. Furthermore, OH-BDD reported unliquidated obligations totaling \$1,782,112 that were not supported by sufficient documentation.

### **INDIRECT COSTS**

For FYs 2001 and 2002, the indirect costs claimed by the OH-BDD were not in accordance with the methodology outlined in the Cost Allocation Plans (CAP) approved by the United States Department of Education.<sup>4</sup> As a result, the OH-BDD claimed unallowable indirect costs totaling \$132,154 (\$66,695 for FY 2001 and \$65,459 for FY 2002). According to the approved CAP, indirect costs chargeable to the OH-BDD are calculated by applying a pre-approved rate times an appropriate base. The base amount is defined as Direct Salaries, Wages and Fringe Benefits (Federal Codes 811 and 813) less Medical Consultant costs (Federal Code 812).<sup>5</sup> We calculated the indirect costs based on the methodology outlined in the approved CAP to arrive at the unallowable indirect costs of \$132,154 (see Appendix C).

The OH-BDD stated that the excessive indirect costs may have resulted from the inappropriate inclusion of Direct State Payroll Related Costs (Federal Code 889) in the base calculation or other financial-related adjustments. The OH-BDD should claim indirect costs in accordance with the methodology outlined in the approved CAP.

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

<sup>3</sup> 20 C.F.R. §§ 404.1614(a) and 404.1624; 20 C.F.R. §§ 416.1014(a) and 416.1024; and SSA POMS, DI 39545.001.A.3.

<sup>4</sup> State of Ohio Rehabilitation Services Commission, *A Central Services Cost Allocation Plan: Fiscal Year 2004 (Budget) Fiscal Year 2002 (Actual)* and *A Central Services Cost Allocation Plan: Fiscal Year 2003 (Budget) and Fiscal Year 2001 (Actual)*, Departmental Indirect Cost Rate Proposal (Computation of Indirect Rates).

<sup>5</sup> The OH-RSC and OH-BDD referred to Direct Salaries, Wages and Fringe Benefits as Federal Codes 811 and 813 and to Medical Consultants as Federal Code 812.

We also found that the OH-BDD did not provide SSA with the quarterly Form SSA-4513<sup>6</sup> Addendums as required by SSA instructions.<sup>7</sup> If properly prepared, the Addendum shows the indirect cost calculation (base times the rate), the method used to calculate the base amount, and the details of financial-related adjustments. If the OH-BDD had submitted the Addendum to SSA, it may have been able to detect that the OH-BDD was not following the approved indirect cost methodology.

If SSA continues its current oversight process of indirect costs, the SSA regional office may not be able to detect when the OH-BDD does not follow the approved indirect cost methodology. Office of Management and Budget Circular A-123 *Management Accountability and Control*, states stewardship of Federal resources is the fundamental responsibility of each Federal agency.<sup>8</sup> Accordingly, the SSA regional office should have a process in place that ensures adequate oversight of indirect costs. In developing such a process, the regional office should require DDSs to submit a quarterly Form SSA-4513 Addendum that shows the indirect cost calculation (base times the rate), the method used to calculate the base amount, and the details of financial-related adjustments. Furthermore, the regional office should analyze the indirect costs information provided on the Addendum and perform any follow-up work it deems necessary.

## **UNLIQUIDATED OBLIGATIONS**

OH-BDD reported unliquidated obligations for FYs 2001 and 2002 totaling \$1,782,112 that were not supported by valid documentation, such as purchase orders.<sup>9</sup> SSA procedures state in part, that valid unliquidated obligations should be supported by documents/records that describe the nature of the obligations and support the amounts recorded. Furthermore, States must submit a quarterly Form SSA-4513 Addendum as required by SSA instructions that includes an explanation of why unliquidated obligations remain.<sup>10</sup> During our audit period, OH-BDD did not provide SSA with the quarterly Form SSA-4513 Addendums.

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<sup>6</sup> Form SSA-4513 – State Agency Report of Obligations for SSA Disability Programs.

<sup>7</sup> POMS DI 39506.202 *State Agency Report of Obligations for SSA Disability Programs – Form SSA-4513 and Form SSA-4513 Addendum*.

<sup>8</sup> Revised June 21, 1995, Introduction.

<sup>9</sup> The amount of unliquidated obligations was obtained from the FY 2001 and FY 2002 Form SSA-4513s for the quarter ended June 30, 2004.

<sup>10</sup> POMS DI 39506.203 *Updating and Reconciling Unliquidated Obligations*.

OH-BDD personnel provided a statement in response to our request for documentation to support its unliquidated obligations. It stated in part, “*...It was found that while we had business needs for the funds, as identified in monthly reports, for a variety of reasons, such as operational circumstances and timing in varying business conditions, the purchase orders were not processed at the appointed time. Some of these needs still exist and we would like to retain the funds to use at a time conducive to operational circumstances...*”

The following table summarizes the unsupported unliquidated obligations for FYs 2001 and 2002.

UNSUPPORTED UNLIQUIDATED OBLIGATIONS			
Form SSA-4513 Cost Category	FY 2001	FY 2002	Total
Personnel Services	\$0	\$45,799	\$45,799
Medical	33,536	49,710	83,246
Non-Personnel	927,885	725,182	1,653,067
<b>Total</b>	<b>\$961,421<sup>11</sup></b>	<b>\$820,691<sup>12</sup></b>	<b>\$1,782,112</b>

Following our exit conference, the OH-BDD deobligated the \$1,782,112 in unliquidated obligations identified in our review. In February 2005, the OH-BDD submitted to the SSA regional office Form SSA-4513s for FYs 2001 and 2002 that reflect a zero balance for unliquidated obligations.

The SSA regional office stated that it reviews unliquidated obligations and makes DDS inquiries when the reported amounts appear unusually high. We believe that the regional office's oversight of unliquidated obligations could be improved if it required the OH-BDD to submit a quarterly Form SSA-4513 Addendum that includes an explanation of unliquidated obligations that remain.

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<sup>11</sup> The amount of FY 2001 unliquidated obligations reported to SSA remained relatively constant from December 2002 through December 2004.

<sup>12</sup> The amount of FY 2002 unliquidated obligations reported to SSA remained relatively constant from June 2003 through December 2004.

## **CONCLUSIONS AND RECOMMENDATIONS**

Our review of administrative costs disclosed that the OH-BDD claimed unallowable indirect costs of \$132,154. Furthermore, OH-BDD reported unliquidated obligations totaling \$1,782,112 that were not supported by sufficient documentation.

We recommend that SSA instruct the OH-BDD to:

1. Refund \$132,154 for unallowable indirect costs.
2. Claim indirect costs in accordance with the methodology outlined in the approved CAP.
3. Submit the quarterly Form SSA-4513 Addendum to show the calculation of indirect costs, an explanation of unliquidated obligations and other information that it deems necessary to support the costs claimed on the Form SSA-4513.

## **AGENCY COMMENTS**

In commenting on our draft report, SSA agreed with our recommendations. See Appendix D for the full text of SSA's comments.

## **STATE AGENCY COMMENTS**

The OH-RSC generally agreed with our first and third recommendations. With regards to our first recommendation, OH-RSC proposes that the \$132,154 in unallowable indirect costs be resolved by adjustments to future year's indirect rate proposals instead of a refund to SSA. OH-RSC did not agree with our conclusion that the \$132,154 in unallowable indirect costs occurred because it did not follow the terms of the approved CAP and accordingly, did not agree with our second recommendation. Rather, OH-RSC attributed the \$132,154 in unallowable indirect costs to errors in its reconciliation processes. See Appendix E for the full text of OH-RSC's comments.

**OIG RESPONSE**

We leave the method for resolving the \$132,154 in unallowable indirect costs to the discretion of SSA noting that any such method must be in compliance with applicable Federal laws and regulations regarding Disability Determination Services funding. With regards to our second recommendation, we remain committed to our conclusion that the unallowable indirect costs occurred because they were not calculated in accordance with the approved CAP. Specifically, the indirect costs base included costs that were not specified in the approved CAP, which resulted in the \$132,154 in unallowable costs.



Patrick P. O'Carroll, Jr.

# **Appendices**

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[\*\*APPENDIX A\*\*](#) – Acronyms

[\*\*APPENDIX B\*\*](#) – Scope and Methodology

[\*\*APPENDIX C\*\*](#) – Ohio Bureau of Disability Determination Indirect Costs

[\*\*APPENDIX D\*\*](#) – Agency Comments

[\*\*APPENDIX E\*\*](#) – State Agency Comments

[\*\*APPENDIX F\*\*](#) – OIG Contacts and Staff Acknowledgments

## **Appendix A**

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### **Acronyms**

Act	Social Security Act
CAP	Cost Allocation Plan
CE	Consultative Examinations
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
Form SSA-4513	State Agency Report of Obligations for SSA Disability Program
OH-BDD	Ohio Bureau of Disability Determination
OH-RSC	Ohio Rehabilitation Services Commission
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code

# **Scope and Methodology**

To achieve our objective, we:

- Reviewed applicable Federal laws and regulations, pertinent parts of the Social Security Administration's Program Operations Manual System DI 39500 *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by the Ohio Bureau of Disability Determination (OH-BDD) and the draw down of Social Security Administration (SSA) funds.
- Reviewed single audit work performed by the State of Ohio internal auditors. Because of the limited scope of the single audit work performed at OH-BDD, we did not rely on the single audit work.
- Interviewed staff at Ohio Rehabilitation Services Commission (OH-RSC), OH-BDD, and SSA Regional Office, Chicago, Illinois.
- Reviewed State policies and procedures related to personnel, medical services, and all other nonpersonnel costs.
- Evaluated and tested internal controls regarding accounting, financial reporting and cash management activities.
- Tested the payroll records to ensure individuals were paid correctly and payroll was adequately documented.
- Reviewed and reconciled the official State accounting records to the administrative costs reported by OH-BDD on the Form SSA-4513 for Fiscal Years (FY) 2001 through 2002.
- Examined the administrative expenditures (personnel, medical service, and all other nonpersonnel costs) incurred and claimed by OH-BDD for FYs 2001 through 2002 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.
- Performed a crosswalk between OH-BDD, Medicare, and Ohio Bureau of Workers' Compensation rates of payment for consultative examinations.
- Examined the indirect costs claimed by OH-BDD for FYs 2001 through 2002 and the corresponding OH-BDD Cost Allocation Plans.
- Compared the amount of SSA funds drawn for support of program operations to the expenditures reported on the Form SSA-4513.

- Discussed indirect cost issues with the Department of Education, Division of Cost Allocation, Chicago, Illinois.
- Reviewed limited areas of the OH-BDD physical security controls.

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 audit work at the OH-BDD and the OH-RSC offices in Columbus, Ohio. We conducted fieldwork from September 2003 through September 2004. 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 OH-BDD for FY 2001 and 2002 for use in statistical sampling.

### **Personnel Costs**

We randomly sampled 50 OH-BDD employees and 50 medical consultants from one randomly selected pay period in the most recent year under review.

### **Medical Costs**

We sampled 100 items (50 items each from FYs 2001 and 2002) using a stratified random sample. We stratified medical costs into Medical Evidence of Record and Consultative Examinations.

### **Indirect Costs**

We judgmentally selected one period of costs used to compute the FY 2002 indirect cost rates and conducted testing of the indirect cost rate calculation.

## **All Other Nonpersonnel Costs**

We selected a stratified random sample of 100 items (50 expenditures each from FYs 2001 and 2002) 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 to total costs.

## **Appendix C**

# **Ohio Bureau of Disability Determination Indirect Costs**

<b>Fiscal Year 2001</b>	
Salaries and Fringe Benefits	\$32,361,608
Less Medical Consultants	5,422,421
Base Per Approved Cost Allocation Plan	26,939,187
Approved Indirect Cost Rate	27.50%
Allowable Indirect Costs	7,408,276
Indirect Costs Claimed on Form SSA-4513	7,474,971
<b>Unallowable Indirect Costs</b>	<b>\$66,695</b>

<b>Fiscal Year 2002</b>	
Salaries and Fringe Benefits	\$35,844,413
Less Medical Consultants	5,944,275
Base Per Approved Cost Allocation Plan	29,900,138
Approved Indirect Cost Rate	27%
Allowable Indirect Costs	8,073,037
Indirect Costs Claimed on Form SSA-4513	8,138,496
<b>Unallowable Indirect Costs</b>	<b>\$65,459</b>

## ***Appendix D***

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### **SSA Comments**

**From:** Jamison, Jim  
**Sent:** Monday, April 18, 2005 1:25 PM  
**To:** ^OIG Audit; ^OIG Draft; ^OIG Controls  
**Cc:** Jamison, Jim; ||CHI ARC MOS; ||CHI ARC MOS CMR; ||CHI ORC; ||CHI OIG Audit; ^DCDISP Audit; ^DCFAM AMLS Controls; ^DCO Audit; McMullen, Theresa; Cardenas, Arturo; Kayser, Jerry; Johnson, Kathleen DDS Columbus; Schaefer, Karen  
**Subject:** Comments on Draft Report -- Ohio DDS Administrative Costs Audit (A-05-04-14028)

#### **MEMORANDUM**

**Date:** April 18, 2005 **Refer To:** S2D5G2

**To:** Inspector General

**From:** Regional Commissioner  
Chicago

**Subject:** Draft Report of Administrative Costs Claimed by the Ohio Bureau of Disability Determination Services (Your Request for Comments E-Mailed April 11, 2005) -- REPLY

Thank-you for the opportunity to comment on the subject report (A-05-04-14028). We have completed our review and concur with all three of your staff's findings.

We appreciate the challenges and difficulties the audit team faced in reviewing a DDS the size of Ohio. For this audit, in particular, the audit team worked closely with my staff, conducting several conference calls and face-to-face meetings. We were able to resolve several potential findings during these pre-draft discussions, and reach consensus on the remaining three.

Again, we want to acknowledge the efforts of your staff in conducting such a comprehensive review of DDS activities.

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

/s/  
James F. Martin

cc: Deputy Commissioner for Operations  
Deputy Commissioner for Finance Assessment and Management  
Deputy Commissioner for Disability and Income Security Programs

## Appendix E

### **State Agency Comments**

400 E. Campus View Boulevard  
Columbus, OH 43235

May 11, 2005

Mr. Patrick P. O'Carroll, Jr.  
Social Security Administration  
Office of the Inspector General  
Baltimore, MD 21235-0001

Re: Audit Report A-05-04-14028

Dear Mr. O'Carroll,

The following comments are offered in response to the draft report entitled "Administrative Costs Claimed by the Ohio Bureau of Disability Determination."

Specifically, the OH-BDD concurs with the draft finding regarding unliquidated obligations and has already returned the funds with one exception noted further in this document. At the same time, the OH-BDD does not accept the draft language that the indirect costs in question were unallowable and not in compliance with the CAP methodology. The OH-BDD does acknowledge, however, that there was an over collection of funds. The over collections will be compensated for in future indirect cost plans pending approval by the cognizant agency.

More detailed comments on both draft findings are offered below.

## **INDIRECT COSTS**

The draft audit report issued by the Social Security Administration's Office of the Inspector General states that the OH-BDD claimed indirect costs for FY's 2001 and 2002 that were not in accordance with the methodology outlined in the Cost Allocation Plans approved by the United States Department of Education, resulting in the claiming of unallowable indirect costs totaling \$132,154 (\$66,695 for FY 2001 and \$65,459 for FY 2002).

While the OH-BDD concurs with the final finding that indirect costs have been over-recovered by the \$132,154, we do not concur that the collection was the result of claiming unallowable costs. It is the position of the agency that the reason the indirect costs were over-recovered was the result of an error in calculating the Base Direct Payroll Costs for the OH-BDD program during the reconciliation processes for both FY 2001 and FY 2002. Our indirect cost consultant generated this error upon which we

relied to our detriment, and the reconciliation is not structured in a way to identify the error, allowing it to continue. In addition, our annual consolidated state audits also never picked up the error. These errors resulted in understatements of the carry forward when final costs for FY's 2001 and 2002 were reconciled. As a result, indirect cost rates for FY's 2003 and 2004 were overstated by the amount of the reconciliation errors, effectively causing the OH-BDD to recoup costs over the course of the two-year period that had already been fully recovered.

The federally approved Indirect Cost Rate Agreements for FY 2001 and FY 2002 state that rates are "based on total direct personal services of all programs", excluding the salaries of the case review medical staff which are charged as consultants". The State of Ohio classifies all payroll, fringe and other payroll related costs as Payroll Expense (Class 10), and the OH-BDD indirect cost rates conform to Ohio's uniform accounting definitions.

Ohio's uniform chart of accounts breaks down items charged as payroll into specific object codes. There are 36 individual elements in 7 categories, one of which is object code 043 (See attached Object and Subobject Codes Definitions). The federal code for these costs is 889. While SSA requires that object code 043 expenses to be reported separately from payroll on the 4513 report, the State of Ohio requires that these costs be classified as payroll expenses. Object code 043 expenses were therefore appropriately included in the total payroll figure used in the plan to calculate the Indirect Cost rates for both FY 2001 and FY 2002. They were erroneously excluded when the reconciliations were done for both years. The same reconciliation error reoccurred in FY 2003, which is not within the scope of this audit but will also be corrected.

The OH-BDD will continue to rely on the State's uniform chart of accounts by including federal code 889 expenses as a direct payroll expense in the calculation of the base for determining indirect cost rates. Further, the OH-BDD will ensure that all direct payroll expenses are also included in the reconciliation calculation for FY 2004 and subsequent years. That will prevent a reoccurrence of this error.

As previously stated, the OH-BDD concurs that the program over-recovered a total of \$132,154 during FY's 2001 and 2002. Because the over-recovery occurred over a two-year period, the OH-BDD proposes to settle the over-recoveries through Roll Forward Adjustments to the FY 2006 and FY 2007 Indirect Cost Rate Proposals. While not required by this audit, the over-recovery adjustment for FY 2003 noted above will be included in the proposal submitted for FY 2008. All three plans will be submitted for approval to the cognizant agency, the U.S. Department of Education.

## **UNLIQUIDATED OBLIGATIONS**

The OH-BDD concurs with the finding and has taken the action necessary to return the unliquidated funds as cited in the draft audit report. It should be noted, however, that the OH-BDD has reopened FY 2002 due to the discovery of a valid obligation to

Dictaphone Corporation in the amount of \$183,564.96 (See attached January 14, 2005 letter to Janet Major and the attached Reopening Report). FY 2002 will be closed immediately after payment of this obligation.

On a final note, please be advised that I have taken steps to implement the final recommendation on the draft audit report. Specifically, I have instructed the staff to include the Form SSA-4513 Addendum with the quarterly submission beginning with the report covering the time period from April through June of 2005. We will use the addendum to document how indirect costs are calculated including explicitly identifying costs that carry federal code 889. As well, we will use the addendum to offer a brief explanation of outstanding obligations.

Questions regarding these comments can be addressed to Michael Martz, the Team Leader of Support Services, at 614-438-1203.

Sincerely,

John M. Connelly  
Executive Director

Enclosure

cc:

Michael Martz, Team Leader, Support Services  
Kathleen Johnson, Director, Ohio Bureau of Disability Determination  
Courtney Yoho, Audit Liaison, Ohio Rehabilitation Services Commission

## Appendix F

# OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

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

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

### ***Acknowledgments***

In addition to those named above:

Elizabeth Juárez, Auditor

Sherman Doss, Auditor

Karis Gaukel, Auditor

Khristan Kaufman, Auditor

Doug Kelly, Auditor

Cheryl Robinson, Writer-Editor

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