
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

August 2009 A-01-09-19035

AUDIT REPORT



Mission

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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: August 26, 2009

Refer To:

To: Manuel J. Vaz
Regional Commissioner
Boston

From: Inspector General

Subject: Administrative Costs Claimed by the Massachusetts Disability Determination Services
(A-01-09-19035)

OBJECTIVE

For our audit of Fiscal Year (FY) 2006 and 2007 administrative costs claimed by the Massachusetts Disability Determination Services (MA-DDS), our objectives were to

- evaluate MA-DDS' internal controls over the accounting and reporting of administrative costs,
- determine whether costs claimed by MA-DDS were allowable and properly allocated and funds were properly drawn, and
- assess limited areas of the general security controls environment.

BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction. Such determinations are required to be performed in accordance with Federal law and underlying regulations.¹ Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.

To make proper disability determinations, each DDS is authorized to purchase consultative medical examinations and medical evidence of record from the claimants' physicians or other treating sources. SSA reimburses the DDS for 100 percent of allowable reported expenditures up to its approved funding authorization, based on a

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

State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513).
(For additional background information, see Appendix B of this report.)

RESULTS OF REVIEW

Except for the items discussed in the following sections, we determined that costs claimed on Forms SSA-4513 for the period October 1, 2005 through September 30, 2007 were allowable and properly allocated, and the system of internal controls over the accounting and reporting of administrative costs was effective. Also, cumulative draw downs did not exceed cumulative disbursements during our audit period. Finally, our limited review of MA-DDS' controls over its physical security and personally identifiable information showed that controls were in place. (See Appendix C for costs reported on Forms SSA-4513.)

INDIRECT COST ALLOCATION

We calculated variances on indirect costs of \$148,275 in FY 2006 and \$162,217 in FY 2007. The variances were due to MA-DDS' use of an indirect cost rate lower than the approved rate. Therefore, MA-DDS underreported the amount of indirect charges on Form SSA-4513 for FYs 2006 and 2007.

We also calculated the indirect costs for FY 2008 to determine whether the variances were corrected in the subsequent year. As shown in Table 1, the variances for the 3-year period netted an underreported indirect cost amount of \$146,919.

As of June 2009, MA-DDS had planned to post an adjusting entry to Form SSA-4513 for FY 2008 to correctly reflect the actual indirect costs incurred by MA-DDS for FYs 2006 through 2008.

Table 1: Reconciliation of Indirect Costs

FY	Auditor's Calculation	SSA-4513	Variance
2006	\$839,473	\$691,198	\$148,275
2007	1,008,061	845,844	162,217
2008	1,566,452	1,730,025	(163,573)
Total	\$3,413,986	\$3,267,067	\$146,919

EXPENDITURE CLASSIFICATION

Based on our samples, we found that some expenditures were misclassified during the period audited. For example, we found eight invoices totaling \$9,780 for the same vendor were classified as Applicant Travel; however, they should have been coded as Contracted Costs. Also, we found a \$5,450 invoice that was classified as Equipment Rental, yet it was related to Equipment Purchase.

EXPENDITURE ACCURACY

We identified an expense item related to Applicant Travel in which a vendor was overpaid \$178 in FY 2006. When we notified MA-DDS of this discrepancy, it contacted the vendor and obtained a refund for the \$178 overage. MA-DDS implemented a new procedure on April 29, 2009 in which the supervisor will ensure that the payment amount entered into the procurement system matches the invoice amount before the payment is issued.

Also, when we recalculated the bi-weekly payroll amount for a medical consultant in FY 2007, we found that the individual was overpaid for 1 hour of work, at a contracted rate of \$68 per hour.

Both of these issues were immaterial in amount and rare in occurrence based on the sample items we analyzed.²

INFORMATION CHARGEBACKS

During our review, SSA's Boston Regional Office expressed concern about specific Miscellaneous expenses designated as Information Chargebacks. This type of expense is comprised of costs associated with the operation and maintenance of a centralized accounting system. The expense is paid by all State agencies in the Commonwealth of Massachusetts on a proportionally allocated basis.³ These charges were recorded in FYs 2006 and 2007 in the amounts of approximately \$776,000 and \$691,000, respectively.

We contacted personnel and/or reviewed documents from the MA-DDS, Boston Regional Office, Office of the Comptroller of the Commonwealth of Massachusetts, and Massachusetts Rehabilitation Commission (the parent agency of MA-DDS). We found that these charges dated back to FY 2005. Since that time, the United States Department of Health and Human Services has approved the charges annually.

² For FYs 2006 and 2007, total administrative expenses for MA-DDS were approximately \$36 million and \$37 million, respectively.

³ The Information Chargebacks are based on a State agency's share of usage of the accounting system, determined by actual transaction lines posted to the general ledger.

CONCLUSION AND RECOMMENDATIONS

Overall, MA-DDS had effective internal controls over the accounting and reporting of administrative costs for FYs 2006 and 2007. Also, the controls in place for general security and personally identifiable information at MA-DDS were satisfactory. MA-DDS took immediate corrective action on the overpayment we identified from the Applicant Travel expenditure group, and it added a control to its payment procedures to verify the dollar amount of the invoice to the payment amount before a check is issued.

However, based on our findings, we recommend that SSA instruct MA-DDS to:

1. Reconcile the amounts for indirect cost allocations and record an adjusting entry as necessary.
2. Review expenses to ensure they are classified correctly on Form SSA-4513.

AGENCY COMMENTS

SSA agreed with the recommendations. (See Appendix D for SSA's comments and Appendix E for the State Agency comments.)



Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Background, Scope, and Methodology

APPENDIX C – Schedule of Total Costs Reported on Forms SSA-4513—*State Agency Reports of Obligations for SSA Disability Programs*

APPENDIX D – Agency Comments

APPENDIX E – State Agency Comments

APPENDIX F – OIG Contacts and Staff Acknowledgments

Appendix A

Acronyms

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
EDP	Electronic Data Processing
FY	Fiscal Year
Form SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
MA-DDS	Massachusetts Disability Determination Services
OIG	Office of the Inspector General
OMB	Office of Management and Budget
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code

Background, Scope, and Methodology

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (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, and/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 the DI and SSI programs are performed by disability determination services (DDS) in each State, Puerto Rico and the District of Columbia. Such determinations are required to be performed in accordance with Federal law and underlying regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each 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 reported expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's Automated Standard Application for Payments System to pay for program expenditures. Funds drawn down must comply with Federal regulations² and intergovernmental agreements entered into by the Department of the Treasury and States under the *Cash Management Improvement Act of 1990*.³ 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.

SCOPE

To accomplish our objectives, we reviewed the administrative costs the Massachusetts Disability Determination Services (MA-DDS) reported on its Forms SSA-4513 for

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

² 31 C.F.R. § 205.

³ *Cash Management Improvement Act of 1990*, Pub. L. No. 101-453.

FYs 2006 and 2007. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions and determine whether they were allowable and appropriate under OMB Circular A-87 and SSA's Program Operations Manual System.

We also:

- Reviewed applicable Federal laws, regulations and pertinent parts of SSA's Program Operations Manual System, and other instructions pertaining to administrative costs incurred by MA-DDS and draw down of SSA funds.
- Interviewed staff at MA-DDS and the SSA Regional Office.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Verified the reconciliation of official State accounting records to the administrative costs reported by MA-DDS on Forms SSA-4513 for FYs 2006 and 2007.
- Examined the administrative expenditures (Personnel, Medical, and All Other Non-personnel costs) incurred and claimed by MA-DDS for FYs 2006 and 2007 on Forms SSA-4513.
- Examined the indirect costs claimed by MA-DDS for FYs 2006 and 2007 and the corresponding Indirect Cost Rate Agreements.⁴
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Reviewed the State of Massachusetts Single Audit reports issued in 2006 and 2007.
- Conducted limited general control testing—which encompassed reviewing the physical access security in the DDS.
- Reviewed policies and procedures related to personally identifiable information to determine whether the DDS had controls in place to protect these data.

The electronic data used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the electronic data by reconciling it with the costs claimed on the Forms SSA-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We performed our audit at the MA-DDS and the Office of Audit in Boston, Massachusetts, from March through June 2009. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit

⁴ We also examined the indirect costs and corresponding Indirect Cost Rate Agreements for FY 2008, although it was outside the scope of our audit.

objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Our sampling methodology encompassed the three general areas of costs as reported on Form SSA-4513: (1) Personnel, (2) Medical, and (3) All Other Non-personnel costs. We obtained computerized data from MA-DDS for FYs 2006 and 2007 for use in statistical sampling.

Personnel Costs

We sampled 50 employee salary items from 1 randomly selected pay period in FY 2007. We tested payroll and hours for each individual selected. We verified that approved time records were maintained and supported the hours worked. We tested payroll records to ensure the MA-DDS correctly paid employees and adequately documented these payments.

We also sampled 50 medical consultant costs from 1 randomly selected pay period in FY 2007. We determined whether sampled costs were reimbursed properly and ensured the selected medical consultants were licensed.

Medical Costs

We sampled 100 medical evidence and consultative examination records (50 items from each FY) using a proportional random sample. We determined whether sampled costs were properly reimbursed.

All Other Non-Personnel Costs

We stratified All Other Non-personnel costs into 10 categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing (EDP) Maintenance, (4) New EDP Equipment/Upgrades (5) Equipment Purchase & Rental, (6) Communications, (7) Applicant Travel, (8) DDS Travel, (9) Supplies, and (10) Miscellaneous. We selected a stratified random sample of 50 items from each FY based on the percentage of costs in each category to total costs.⁵ We also performed a 100-percent review of the rent portion of Occupancy and the Cooperative Disability Investigations portion of Miscellaneous. Additionally, we gained an understanding of the Information Chargeback portion of Miscellaneous.

⁵ If a category was less than 1 percent of the total costs for the applicable FY, we did not select a stratified random sample for those costs, but instead, reviewed all items within the category.

Personally Identifiable Information

We reviewed a random sample of various mailed documents MA-DDS produced and found that personally identifiable information was referenced only on those deemed necessary, such as notices addressed to doctors, hospitals, medical providers, etc.⁶

⁶ Entities in the medical profession typically identify patients based on their Social Security number.

Appendix C

Schedule of Total Costs Reported on Forms SSA-4513—*State Agency Reports of Obligations for SSA Disability Programs*

Massachusetts Disability Determination Services

FISCAL YEARS (FY) 2006 and 2007 COMBINED

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$46,981,458	\$0	\$46,981,458
Medical	\$11,655,263	\$0	\$11,655,263
Indirect	\$1,537,042	\$0	\$1,537,042
All Other	\$13,156,151	\$0	\$13,156,151
TOTAL	\$73,329,914	\$0	\$73,329,914

FY 2006

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$22,917,208	\$0	\$22,917,208
Medical	\$5,684,475	\$0	\$5,684,475
Indirect	\$691,198	\$0	\$691,198
All Other	\$6,933,748	\$0	\$6,933,748
TOTAL	\$36,226,629	\$0	\$36,226,629

FY 2007

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$24,064,250	\$0	\$24,064,250
Medical	\$5,970,788	\$0	\$5,970,788
Indirect	\$845,844	\$0	\$845,844
All Other	\$6,222,403	\$0	\$6,222,403
TOTAL	\$37,103,285	\$0	\$37,103,285

Appendix D

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: July 27, 2009

Refer To: S2D1G5/DI-16/ORC-2009-11702

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

From: Manuel J. Vaz /s/
Regional Commissioner

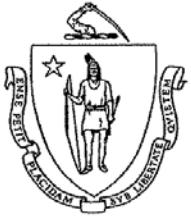
Subject: Administrative Costs Claimed by the Massachusetts Disability Determination Services (A-01-09-19035) – Reply (Your Memo, July 15, 2009)

We have reviewed the draft report for the administrative audit on the Massachusetts Disability Determination Services (MA DDS) (A-01-09-19035) and concur with both recommendations. In fact, the MA DDS plans to take action to reconcile the amounts for indirect cost allocations, when they submit their quarterly SSA-4513 reports for the quarter ending 6/30/09.

We thank you for the opportunity to provide these comments to the draft report. We have always enjoyed a collegial and professional rapport with our OIG auditors, and have the utmost respect and appreciation for their communication efforts and dedication to the audit process.

Appendix E

State Agency Comments



***The Commonwealth of Massachusetts
Executive Office of Health and Human Services
Massachusetts Rehabilitation Commission
Fort Point Place
27 Wormwood Street
Boston, MA 02210 - 1616***

DEVAL L. PATRICK
GOVERNOR

TIMOTHY P. MURRAY
LIEUTENANT GOVERNOR

JUDYANN BIGBY, M.D.
SECRETARY

Charles Carr
COMMISSIONER

August 14, 2009

Patrick P. O'Carroll, Jr.
Office of Inspector General
Social Security Regional Office
John F. Kennedy Building – 19th floor
Boston, MA 02203

RE: Administrative Costs Claimed by the Massachusetts Disability Determination Services
(A-01-09-19035) FY 2006 and 2007

Dear Mr. O'Carroll, Jr.

In reference to the Office of The Inspector General, Social Security Administration, Administrative Costs Claimed by the Massachusetts Disability Determination Services A-01-09-19035 Audit Report, we concur with your audit conclusions and recommendations.

The corrective action plan is the responsibility of the Massachusetts Rehabilitation Commission/Disability Determination Services Division. The reconciliation of FY 2006 and 2007 indirect cost allocations took place in October 2008. The indirect cost allocations were corrected to the State comptroller's rate. To ensure that they are correctly classified on form SSA-4513, all expense line items are reviewed on a monthly basis.

The contact person related to this matter is Luis Mancebo, Fiscal Director, MRC/DDS, Fiscal Department, Boston MA. Mr. Mancebo may be reached at 617.654.7403 or by email at Luis.A.Mancebo@ssa.gov.

Very truly yours,

A handwritten signature in black ink that appears to read "Charles Carr" followed by "Massachusetts Rehabilitation Commission".

Charles Carr
Commissioner

Appendix F

OIG Contacts and Staff Acknowledgments

OIG Contacts

Judith Oliveira, Director, Boston Audit Division

David Mazzola, Audit Manager

Acknowledgments

In addition to those named above:

Chad Burns, Auditor

Frank Salamone, Senior Auditor

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