



SOCIAL SECURITY

MEMORANDUM

Date: August 31, 2005

Refer To:

To: Laurie Watkins
Regional Commissioner
Philadelphia

From: Inspector General

Subject: Administrative Costs Claimed by the Pennsylvania Bureau of Disability Determination
(A-15-04-14080)

The attached final report presents the results of our audit. The objectives of our audit of the Pennsylvania Bureau of Disability Determination were to (1) evaluate internal controls over the accounting and reporting of administrative costs, (2) determine if costs claimed were allowable and properly allocated, (3) reconcile funds drawn down with claimed costs, and (4) assess limited areas of the general security controls environment.

Please provide within 60 days a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

cc:

Stephen M. Schmerin, Secretary, Pennsylvania Department of Labor and Industry
Joel Weisberg, Director, Bureau of Disability Determination
Connie S. Huber, Comptroller, Labor, Education and Community Services
Lenore R. Carlson, Associate Commissioner for Office of Disability Determinations
Jeff Hild, Associate Commissioner for Office of Financial Policy and Operations
Candace Skurnik, Director, Audit Management and Liaison Staff



**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED
BY THE PENNSYLVANIA BUREAU
OF DISABILITY DETERMINATION**

August 2005 A-15-04-14080

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.

Executive Summary

OBJECTIVE

The objectives of our audit of the Pennsylvania Bureau of Disability Determination (PA-BDD) were to (1) evaluate internal controls over the accounting and reporting of administrative costs, (2) determine if costs claimed were allowable and properly allocated, (3) reconcile funds drawn down with claimed costs, and (4) 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 in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures. The expenditures include both direct and indirect costs. The Commonwealth of Pennsylvania Department of Labor and Industry (PA-L&I) is the parent agency of the PA-BDD.

RESULTS OF REVIEW

Generally, PA-L&I had adequate controls over the \$144 million in administrative costs claimed during the 2-year audit period ended September 30, 2003; however, we could not substantiate about 2 percent of these costs. PA-L&I charged \$49,418 for unallowable costs that did not benefit PA-BDD. Also, we found insufficient documentation for PA-L&I charges of \$730,162 for All Other Nonpersonnel costs and \$11,948 for Multifund costs. We identified invalid unliquidated obligations amounting to \$2.2 million. Additionally, we found expenditures amounting to \$132,493 charged to incorrect Federal fiscal years (FFY). We conducted a limited evaluation of general security controls of the PA-BDD's locations and identified several areas where improvements can be made.

RECOMMENDATIONS

We recommend that the SSA Regional Office (RO) work with the PA-L&I staff to improve the documentation of the costs claimed and validate the unsupported costs. We also recommend the RO instruct the PA-L&I to reimburse SSA \$49,418 for disallowed costs, and deobligate \$2.2 million of invalid unliquidated obligations. PA-L&I needs to improve internal controls to prevent costs from being charged to incorrect FFYs and make correcting entries for costs charged to the wrong FFYs. Finally, the PA-BDD needs to improve the security over its buildings.

SSA COMMENTS

SSA agreed with our recommendations. See Appendix D for the text of SSA's comments.

COMMONWEALTH OF PENNSYLVANIA COMMENTS

In its response to our eight recommendations, PA-L&I generally agreed to implement or had already implemented five recommendations. For the three recommendations with which PA-L&I disagreed, it believed that it had charged costs appropriately and provided the Office of the Inspector General with sufficient documentation.

OIG RESPONSE

We appreciate the comments from SSA and PA-L&I. We reaffirm our conclusions and recommendations. The PA-L&I was unable to provide adequate documentation showing the PA-BDD was allocated central services bureau costs in proportion to the benefits received. Central services bureau employees used various methods to allocate portions of their workday rather than actual time worked as required by Office of Management and Budget Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*. As a result, we could not determine the validity of central service Direct Labor costs and Multifund costs charged to the PA-BDD.

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Introduction

OBJECTIVE

The objectives of our audit of the Pennsylvania Bureau Disability Determination (PA-BDD) were to (1) evaluate internal controls over the accounting and reporting of administrative costs, (2) determine if costs claimed were allowable and properly allocated, (3) reconcile funds drawn down with claimed costs, and (4) assess limited areas of the general security controls environment.

BACKGROUND

The Disability Insurance (DI) program was established in 1956 under Title II of the Social Security Act (Act). The DI program provides benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted the Supplemental Security Income (SSI) program under Title XVI of the Act. The SSI program 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 DI and SSI are performed by disability determination services (DDS) in each State in accordance with Federal 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 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 regulations² and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act of 1990.³ An advance or reimbursement for costs under the program must comply with the Office of Management and Budget's (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. For each Federal fiscal year (FFY), the DDS submits a quarterly *State Agency Report of*

¹ 20 C.F.R. §§ 404.1601 et. seq. and 416.1001 et. seq.

² 31 C.F.R. Part 205.

³ Pub. L. No. 101-453, 31 U.S.C. § 6501.

Obligations for SSA Disability Programs (Form SSA-4513) to account for program disbursements and unliquidated obligations.⁴

PA-BDD is a component within the Pennsylvania Department of Labor and Industry (PA-L&I). For FFYs 2002 through 2003, PA-BDD had about 617 employees who were located in three cities in the Commonwealth: Greensburg, Wilkes-Barre, and the central office in Harrisburg, Pennsylvania. SSA provided an authorized budget of \$144.5 million for FFY 2002 and 2003 administrative costs. As of September 30, 2003, PA-L&I reported total disbursements for the PA-BDD of approximately \$133 million and unliquidated obligations of \$11 million, which equals \$144 million of obligations. The obligated costs by category for the 2-year period were:

Cost Areas	FFYs 2002 & 2003 Total Obligations
Payroll	\$85,269,522
Medical Service	38,967,672
Indirect	952,668
All Other	18,930,539
Total	\$144,120,401

PA-L&I maintains a process for charging Direct Labor costs for those staff who work on other programs. The staff maintains time sheets to indicate time spent on each program. On a monthly basis the time sheet data are input into a direct cost report and the programs are charged.

PA-L&I also maintains a form of cost distribution known as Multifund allocations. These costs represent services and other purchases for the PA-L&I, but are not part of the Indirect cost process. The PA-BDD routinely is charged a percentage of these costs, which are recorded as All Other Nonpersonnel Costs.

⁴ POMS DI 39506.200, B, 4, "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

Generally, PA-L&I had adequate controls over the \$144 million in administrative costs claimed for reimbursement and unliquidated obligations during the 2-year audit period ended September 30, 2003; however, we could not substantiate about 2 percent of these costs. We identified four areas of control weakness: unsupported costs, unsupported unliquidated obligations, expenses recorded in the wrong FFYs and general security deficiencies.

UNSUPPORTED ALL OTHER NONPERSONNEL COSTS

PA-L&I charged the PA-BDD \$49,418 in All Other Nonpersonnel Costs that did not benefit SSA's programs. The unallowable costs of \$49,418 included 1) employee breaks of \$6,594, 2) lobbying costs of \$32,995, and 3) parking costs of \$9,829. Further, we question \$730,162 in All Other Nonpersonnel direct costs over the 2-year period because of insufficient supporting documentation. We also question \$11,948 in unsupported Multifund costs. We could not determine if the PA-BDD benefited from these charges.

INSUFFICIENTLY SUPPORTED DIRECT LABOR COSTS

It is the practice of PA-L&I staff who conduct work for the various PA-L&I components to allocate costs to the PA-BDD as an All Other Nonpersonnel cost. We were unable to determine the basis for Direct Labor allocations and whether the PA-BDD received a benefit from such services.

At our request, PA-L&I contacted 13 employees selected from a group of 169 to determine the basis for charging time to the PA-BDD. Using the information provided by PA-L&I and our analysis of the timesheets, we determined that 10 of the 13 employees had allocated their time based on various methods. Three of the 13 employees had charged actual time to the PA-BDD. The various allocation methods reported to us included splitting time equally among all of the programs, or charging the bulk of time to one agency and allocating the remainder equally to the other agencies. One of the 13 employees routinely charged his breaks to the PA-BDD and all of productive time to other components. We estimate that during the 2-year period of our audit this employee improperly charged \$6,594 to the PA-BDD. OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, requires employees to record actual time spent on the activity charged.⁵

One of the 13 employees worked in the Legislative Affairs Office (LAO). PA-L&I was unable to provide supporting records to demonstrate a benefit of LAO to the PA-BDD.

⁵ OMB A-87, Attachment B, section 11.h.5.a., referring to employees who work on multiple activities or cost objectives states in part that personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of actual activity of each employee (This section was updated after May 10, 2004, to become section 8.h.5.a.).

The PA-L&I's cost allocation plan describes the objective of the LAO as "...attends legislative sessions to monitor and influence the progress and substance of legislation affecting the Department." Costs relating to influencing State legislatures or a legislative body are not allowed under Federal Acquisition Regulations.⁶ During FFYs 2002 and 2003 the PA-BDD was charged \$32,995 by the LAO.

We analyzed 1 month of Direct Labor costs charged to the PA-BDD, valued at \$36,198. PA-L&I provided us with 98 staff timesheets in support of the sample transaction. Our analysis showed 62 of the 98 timesheets contained various methodologies to allocate time to the PA-BDD. We were advised by PA-L&I management that employee time sheets were to be prepared using actual time worked, and not based on an allocation.

Because of insufficient supporting documentation over PA-L&I labor costs we question the costs included in our 2-year audit period. PA-L&I labor costs and offsets amounted to \$730,162 after excluding the unallowed costs of breaks and LAO. The SSA Regional Office (RO) will need to work with the PA-L&I to determine the validity of these labor costs. The SSA RO should direct PA-L&I to refund to SSA the \$6,594 paid for employee breaks and the \$32,995 paid for LAO's expenses.

UNSUPPORTED MULTIFUND COST ALLOCATIONS

PA-L&I distributed miscellaneous costs known as Multifund allocations to the PA-BDD. The Multifund allocations were reported as part of the All Other Nonpersonnel costs. There was insufficient documentation to support how the amounts were calculated, and whether the PA-BDD received a benefit from the Multifund services. With the implementation of the Systems Analysis and Program system in July 2003, Multifund allocation transfers became automated. Since being automated it was found that problems had arisen in the system coding, which prevented detailed information from being provided. This was not identified as a problem for the period prior to July 2003. OMB Circular A-87 requires, "Factors affecting allowability of costs...be adequately documented."⁷ The PA-L&I needs to improve accounting information to provide assurance that allocated costs are reasonable and necessary for the PA-BDD. Our review of expenditure information for July through September FFY 2003 identified 198 Multifund allocation transactions amounting to \$11,948 that did not have sufficient supporting documentation.

Because of insufficient supporting documentation for PA-L&I Multifund costs, we question the costs included in our 2-year audit period. The SSA RO needs to work with the PA-L&I to determine the validity of the \$11,948 in Multifund costs.

⁶ 48 C.F.R. § 31.603(b)(2), 41 U.S.C. § 256(e).

⁷ OMB Circular A-87, Attachment A, C.1.j.

UNALLOWABLE ALLOCATION OF PARKING

The PA-BDD paid expenses of \$4,289 and \$5,540 for FFYs 2002 and 2003, respectively, for parking at the PA-L&I building. However, PA-BDD had no assigned parking places in the garages. An allocation of parking costs was charged to the PA-BDD because it is part of PA-L&I. The PA-BDD was located in other parts of the city and/or Commonwealth and provided its own parking for employees.

We believe these charges to be unreasonable considering the lack of benefit derived. OMB Circular A-87 states, "...costs must...be necessary and reasonable for proper and efficient performance and administration of Federal awards."⁸ OMB A-87 also states, "...a cost is allocable to a particular cost objective...in accordance with relative benefits received."⁹ SSA's RO should direct PA-L&I to reimburse SSA for the \$9,829 parking expenses charged for the 2-year period and discontinue the allocation of parking costs to PA-BDD.

UNSUPPORTED UNLIQUIDATED OBLIGATIONS

The PA-BDD reported \$2,151,869 of unliquidated obligations that were not supported. Starting in FFY 2002, SSA made funds available for planned moves of the Greensburg and Wilkes-Barre offices and an expansion of the Harrisburg location. SSA provided \$770,775 in FFY 2002 funds and \$1,381,094 in FFY 2003 funds for the moves and expansion.

During our field work we determined as late as January 12, 2005, no specific move date or expansion start date had been finalized. We also noted that no purchase orders or contracts had been issued. SSA's Program Operations Manual System (POMS) states, "Obligations for supplies, equipment, and other contractual services...should be supported by a valid purchase order or other binding agreement to pay for goods or services."¹⁰ POMS also requires that for obligations to be valid there must be a bona fide need. Further, this need must exist within the year of funding, but the purchase order or contract can be finalized up to 6 months after the FFY end.¹¹

The RO should direct PA-L&I to deobligate the obligations relating to the FFYs 2002 and 2003 move/expansion efforts.

⁸ OMB Circular A-87, Attachment A, C.1.a.

⁹ OMB Circular A-87, Attachment A, C.3.a.

¹⁰ POMS DI39506.201, E., 4.

¹¹ POMS DI39506.200, B., 1.

EXPENSES CHARGED TO THE WRONG FEDERAL FISCAL YEAR

We identified expense transactions totaling \$132,493 that were charged to the wrong FFY. Improper recording of expense transactions prevents SSA from accurately monitoring the status of PA-BDD's expended and unexpended appropriations. The incorrect reporting of obligations also affects SSA's ability to manage the allocation and use of budgeted funds to the various States. The improper recording of FFY expenses also prevents PA-BDD from managing its funds. POMS requires obligations be based on a bona fide need for goods or services that exist within the FFY.¹²

Additional information on the type of cost and amounts follows:

- Rental costs – costs amounting to \$110,876 for FFY 2004 were charged to FFY 2003 funds. The expenditures were identified as part of our review of unliquidated obligations. We identified four payment amounts: \$33,923 (November 2003), \$37,505 (January 2004), \$33,923 (March 2004), and \$5,525 (March 2004) recorded in the wrong FFY.
- Prepaid supplies – PA-BDD bought \$3,769 in supplies in June 2001, and later charged the cost to FFY 2002 funds.
- Telecommunication usage – a FFY 2003 Wilkes-Barre PA-BDD bill for the service period July 1st through July 31st 2003, for \$2,704 was charged to FFY 2002 funds.
- Payroll costs – payroll transactions that totaled \$15,144 for FFY 2003 pay periods ended September 5, 2003 and September 9, 2003, were charged to FFY 2002.

PA-L&I's internal controls to detect transactions recorded in the wrong FFY were not effective. Internal controls were sufficient over expenditure processes, but weaker over which SSA fund years would be charged. SSA's RO should instruct the PA-L&I to adjust the expenses to the proper FFYs and revise its Form SSA-4513 accordingly. Additionally, the RO should instruct PA-L&I to improve internal controls to prevent costs from being charged to incorrect FFYs.

¹² POMS DI39506.200, B., 1.

GENERAL SECURITY DEFICIENCIES

We conducted a limited evaluation of the general security controls environment of the PA-BDD Greensburg, Harrisburg, and Wilkes-Barre locations. To complete this work we applied a check list based on the SSA Disability Determination Services Security Document (DSD), September 2003 version. We identified three control weaknesses:

- For all three locations, we found the walls of the computer rooms were not slab to slab construction, but contained an open area above the drop ceiling. There was no intrusion detection system (IDS)¹³ in these open areas, nor any type of barrier to prevent intrusion through the ceiling opening. SSA's DSD states:

“The walls of the computer room should have slab-to-slab construction to prevent unauthorized entry or the computer room must be made secure by installing chain link fences, heavy wire mesh, or motion sensor devices in the space between the false ceiling and the true ceiling of the facility.”¹⁴

The PA-BDD should improve the security of its computer rooms.

- In the work areas in the Harrisburg, and Wilkes-Barre PA-BDD, we noted a number of terminals were logged on to the case processing system, but were unattended. The SSA DSD states, “A DDS system user must...log off or lock the system when they leave their workstation.”¹⁵ PA-BDD management should reinforce good security habits to ensure all staff log off when work stations are unattended.
- The work areas in the Wilkes-Barre PA-BDD lacked IDS devices. The Wilkes-Barre location is a single level building with perimeter, ground level windows. An IDS covered internal hallways but not the perimeter rooms where case files were stored. Our assessment of the work space found the windows were not wired with alarms, and the work area had no motion detectors. The SSA DSD states, “An intrusion detection system is required in all facilities unless determined unnecessary.”¹⁶ We believe the situation warrants increased security. Management should enhance security by installation of IDS devices within the work areas to deter intrusions.

¹³ An IDS consists of devices which typically employ electronic sensors to detect unauthorized intrusion.

¹⁴ DSD Section VII, Internal Office Security.

¹⁵ DSD Section II, DDS System Users.

¹⁶ DSD Section VII, Internal Office Security.

Conclusions and Recommendations

Generally, the parent agency of the PA-BDD, the PA-L&I, had adequate controls over the \$144 million in administrative costs claimed during the 2-year audit period ended September 30, 2003; however, we could not substantiate about 2 percent of these costs. PA-L&I did not maintain sufficient documentation for us to verify the accuracy of certain claimed expenses or to determine if PA-BDD benefited from the costs incurred. We question \$730,162 of Direct Labor costs charged by the PA-L&I because of inadequate supporting documentation. Similarly, we question Multifund costs of \$11,948 because of insufficient supporting documentation. We could not determine whether the costs the PA-BDD charged were an accurate share of the cost and whether PA-BDD benefited from the services. We have determined specific costs claimed for the allocation of an employee's breaks of \$6,594 and LAO of \$32,995, as unallowable costs.

Additionally, the \$9,829 in parking costs at the PA-L&I building charged to PA-BDD were not allowable. Also, we found unliquidated obligations of \$2.2 million were not supported by purchase orders or contracts, and expenditures of \$132,493 were charged to incorrect FFYs. Finally, in our limited evaluation of general security controls, we identified several areas that could be improved.

We recommend SSA's RO:

1. Work with the PA-L&I to determine the validity of the charges of \$433,291 in FFY 2002, and \$296,871 in FFY 2003 in unsupported PA-L&I Direct Labor, as well as \$11,948 in FFY 2003 Multifund costs, which would allow a reviewer to understand why costs were charged to the PA-BDD and the purpose of the services.

Also, we recommend SSA's RO instruct the PA-L&I and PA-BDD to:

2. Reimburse SSA for \$21,285 in FFY 2002, and \$11,710 in FFY 2003 for unallowable costs of the LAO, and \$3,297 in FFY 2002 and \$3,297 in FFY 2003 for the allocation of an employee's breaks charged to PA-BDD.
3. Discontinue the practice of charging PA-BDD for parking costs at the PA-L&I and reimburse SSA the parking costs of \$4,289 for FFY 2002 and \$5,540 for FFY 2003.

4. Improve internal controls over the obligation process to ensure only properly supported obligations are recorded and deobligate the invalid move/expansion unliquidated obligations of \$770,775 for FFY 2002 and \$1,381,094 for FFY 2003.
5. Improve internal controls to prevent costs from being charged to incorrect FFYs and make correction entries to adjust \$132,493 of costs charged to the wrong FFYs:
 - \$110,876 of rental costs from FFY 2003 to FFY 2004.
 - \$3,769 for supplies charged from FFY 2002 to FFY 2001.
 - \$2,704 for telecommunication usage from FFY 2002 to FFY 2003.
 - \$15,144 in payroll costs from FFY 2002 to FFY 2003.
6. Improve security in the PA-BDD computer rooms by restricting possible access through the open ceiling.
7. Reinforce good security habits to ensure all staff log off their computers when stations are unattended.
8. Increase the security of the Wilkes-Barre location through installation of an IDS in staff work areas where windows and rooms have no sensors.

SSA COMMENTS

SSA agreed with our recommendations. The full text of SSA's comments may be found in Appendix D.

STATE AGENCY COMMENTS

In its response to our Recommendations, PA-L&I generally agreed to implement or had already implemented Recommendations 4 through 8. For the recommendations with which PA-L&I disagreed, it believed it had charged costs appropriately and provided the Office of the Inspector General (OIG) with sufficient documentation.

PA-L&I disagreed with Recommendations 1, 2 and 3 because it allocated Direct Labor and Multifund costs charges using the same percentages as in the approved Indirect Cost Allocation Plan. It also believed that it had provided sufficient documentation to the OIG to support the Direct Labor and Multifund costs expenses.

While PA-L&I did not believe improvements in internal controls were necessary, it corrected the deficiencies discussed in Recommendations 4 and 5. Specifically, the PA-L&I stated that the balances of the unliquidated obligations were being deobligated and the charges to the wrong FYs were corrected, respectively.

PA-L&I agreed with Recommendations 6, 7 and 8 to increase its security controls relating to computer room security, to ensure unattended computers are logged off and to have greater coverage by IDSs in the new Wilkes-Barre office.

Because of the length of PA-L&I's comments, we did not include the full text as an appendix. A complete copy of PA-L&I's comments may be obtained by written request to the OIG contacts mentioned in Appendix F.

OIG RESPONSE

We appreciate the comments from SSA and PA-L&I. We reaffirm our conclusions and recommendations. We are pleased that PA-L&I will take action to strengthen its security controls relating to the computer rooms, unattended but logged on computers and the IDS in the Wilkes-Barre Office as stated in Recommendations 6, 7, and 8, respectively. We are also pleased that PA-L&I has deobligated the invalid move/expansion unliquidated obligations and corrected the charges, as stated in Recommendations 4 and 5.

PA-L&I disagreed with Recommendations 1, 2, and 3, but was unable to provide adequate documentation showing that PA-BDD was allocated central services Direct Labor and Multifund costs in proportion to the benefits received.

With respect to PA-L&I's comments on Recommendation 1, we discussed our findings with the U.S. Department of Labor indirect cost negotiator and he agreed with our assessment. As to the adequacy of the support provided, PA-L&I did not provide us with source documentation linking the Direct Labor costs and Multifund costs to the PA-BDD. Without the actual hours of work directly benefiting PA-BDD, PA-L&I lacks the necessary data to calculate the amount of costs to be allocated.

Appendices

Appendix A

Acronyms

C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
DSD	Disability Determination Service Security Document
FFY	Federal Fiscal Year
IDS	Intrusion Detection System
LAO	Legislative Affairs Office
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PA-BDD	Pennsylvania Bureau of Disability Determination
PA-L&I	Pennsylvania Department of Labor and Industry
POMS	Program Operations Manual System
RO	Regional Office
SSA	Social Security Administration
SSA-4513	State Agency Report of Obligations for SSA Disability Programs
SSI	Supplemental Security Income
Treasury	Department of the Treasury
U.S.C.	United States Code

Scope and Methodology

We reviewed the administrative costs reported by Pennsylvania Bureau of Disability Determination (PA-BDD) on its State Agency Report of Obligations for the Social Security Administration's (SSA) Disability Programs (SSA-4513) for Federal Fiscal Years (FFY) 2002 and 2003.

To accomplish our objectives, we:

- Reviewed Office of Management and Budget Circular A-87 *Cost Principles for State, Local, and Indian Tribal Governments*, and appropriate sections of the Code of Federal Regulations, the United States Code, SSA's Program Operations Manual System, and the Commonwealth of Pennsylvania Department of Labor and Industry's (PA-L&I) Cost Allocation Plan.
- Reviewed PA-L&I / PA-BDD policies and procedures related to personnel, medical, Indirect, and Nonpersonnel costs.
- Interviewed employees from SSA, U.S. Department of Labor, PA-BDD, PA-L&I, and single audit certified public accountants.
- Evaluated and tested internal controls regarding accounting, financial reporting and cash management activities.
- Reviewed single audit work performed by certified public accountants to assess the internal controls and validity of payroll costs reported by the Commonwealth of Pennsylvania for FFYs 2002 and 2003. We were able to rely on the payroll work performed by the auditors and limit the extent of our payroll tests at the PA-BDD.
- Conducted a limited review of the general security of the Harrisburg, Greensburg, and Wilkes-Barre PA-BDD locations.
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures. We also tested timing of payroll draw downs to Cash Management Improvement Act agreement requirements.
- Examined the administrative costs incurred and claimed by PA-BDD for Personnel, Medical, Indirect, and all other Nonpersonnel costs during FFYs 2002 and 2003.
- Selected samples of payroll, medical evidence and all other nonpersonnel costs as described in the sampling methodology section on the following page.
- Analyzed Indirect costs by applying the payroll cost base to agreed negotiated rates.

- Reconciled the accounting records to the costs reported by PA-BDD on its Forms SSA-4513 for FFYs 2002 and 2003.

To meet the objectives of our review, we assessed the reliability of computer processed data produced by the PA-L&I accounting system. We tested the data reliability including tracing individual transactions to the source documents, recalculating totals and other tests deemed necessary. We determined that the data was sufficiently reliable.

We performed audit work at PA-L&I and PA-BDD in Harrisburg, Greensburg and Wilkes-Barre, Pennsylvania between May 2004 and December 2004. The entity audited was the Office of Disability Determinations within the Office of the Deputy Commissioner for Disability and Income Security Programs. We conducted our audit in accordance with generally accepted government auditing standards.

SAMPLING METHODOLOGY

Our sampling methodology included the three general areas of costs as reported on Form SSA-4513: (1) personnel, (2) medical, and (3) all other nonpersonnel costs. We obtained data extracts from PA-BDD for FFYs 2002 and 2003 to use in statistical sampling. Indirect cost was not sampled but we reviewed the indirect cost calculations for FFYs 2002 and 2003 to ensure the correct rate was applied. After selecting and reviewing the randomly selected samples, we did not identify errors that we felt warranted statistical projection.

Personnel Costs

We reviewed 10 employees' transactions from 1 pay period in FFY 2003. We tested payroll records to ensure PA-BDD accurately paid its employees and adequately supported these payments. In addition, payroll costs recorded in the PA-L&I accounting system were verified to payroll registers provided by the Bureau of Commonwealth Payroll Operations for 5 pay periods. We reviewed contracts and tested the validity of invoices for seven medical consultants who were paid in FFYs 2002 and 2003.

Medical Costs

We reviewed 200 medical cost items (100 items from each FFY) using a simple random sample. We evenly distributed the sample items between medical evidence of records and consultative examinations.

All Other Nonpersonnel Costs

We reviewed 100 all other nonpersonnel cost items (50 items from each FFY) using a stratified random sample. Before our sample selection, we sorted the transactions into the following categories: (1) Non-DDS Personnel, (2) Telecommunications/EDP,

(3) Specialized Services, (4) Travel, and (5) All Other Object Codes. We also selected nine FFY 2002 records (two records classified as pre-payments, three systems analysis and program accounting records charged to FFY 2002, but processed in FFY 2003, and four rental records) and four FFY 2003 records (four rental records).

Appendix C

Schedules of Obligations Reported, Questioned and Allowed

Pennsylvania Bureau of Disability Determination Reported and Allowable Costs

Table 1 – Administrative Costs for Federal Fiscal Year 2002

As of September 30, 2003

COSTS	REPORTED ON FORM SSA-4513	AUDIT ADJUSTMENTS	ADJUSTED COSTS
PAYROLL:			
DISBURSED	\$41,528,448	(\$15,144) *1	\$41,513,304
UNLIQUIDATED	394,107	0	394,107
TOTAL PAYROLL COST	<hr/> 41,922,555	(15,144)	41,907,411
MEDICAL:			
DISBURSED	18,799,347	0	18,799,347
UNLIQUIDATED	41,729	0	41,729
TOTAL MEDICAL COST	<hr/> 18,841,076	0	18,841,076
INDIRECT COST:			
DISBURSED	426,050	0	426,050
UNLIQUIDATED	433	0	433
TOTAL INDIRECT COST	<hr/> 426,483	0	426,483
ALL OTHER NONPERSONNEL:			
DISBURSED	6,068,650	(468,635) *2	5,600,015
UNLIQUIDATED	2,978,282	(770,775) *3	2,207,507
TOTAL ALL OTHER COST	<hr/> 9,046,932	(1,239,410)	7,807,522
TOTAL DISBURSED	66,822,495	(483,779)	66,338,716
TOTAL UNLIQUIDATED	<hr/> 3,414,551	(770,775)	2,643,776
TOTAL OBLIGATIONS	<hr/> \$70,237,046	(\$1,254,554)	\$68,982,492

*1 Adjustment - payroll costs incurred in FFY 2003, but charged to FFY 2002, see section "Expenses Charged to the Wrong Federal Fiscal Year."

*2 Adjustment - \$433,291 in unsupported documentation labor costs and offset costs, \$21,285 unallowed Legislative Affairs Office and \$3,297 unallowed allocated breaks
\$4,289 in unallowable parking costs, \$3,769 of prepaid supplies charged to the wrong year, and \$2,704 telecommunication usage charged to the wrong year.

*3 Adjustment of \$770,775 unliquidated obligations unsupported by authorized contracts or purchase orders.

Pennsylvania Bureau of Disability Determination Reported and Allowable Costs

Table 2 – Administrative Costs for Federal Fiscal Year 2003

As of September 30, 2003

COSTS	REPORTED ON FORM SSA-4513	AUDIT ADJUSTMENTS	ADJUSTED COSTS
PAYROLL:			
DISBURSED	\$42,382,094	\$15,144	*1 \$42,397,238
UNLIQUIDATED	964,873	0	964,873
TOTAL PAYROLL COST	43,346,967	15,144	43,362,111
MEDICAL:			
DISBURSED	17,524,553	0	17,524,553
UNLIQUIDATED	2,602,043	0	2,602,043
TOTAL MEDICAL COST	20,126,596	0	20,126,596
INDIRECT COST:			
DISBURSED	227,353	0	227,353
UNLIQUIDATED	298,832	0	298,832
TOTAL INDIRECT COST	526,185	0	526,185
ALL OTHER NONPERSONNEL:			
DISBURSED	5,700,411	(326,662)	*2 5,373,749
UNLIQUIDATED	4,183,196	(1,491,970)	*3 2,691,226
TOTAL ALL OTHER COST	9,883,607	(1,818,632)	8,064,975
TOTAL DISBURSED	65,834,411	(311,518)	65,522,893
TOTAL UNLIQUIDATED	8,048,944	(1,491,970)	6,556,974
TOTAL OBLIGATIONS	\$73,883,355	(\$1,803,488)	\$72,079,867

*1 Adjustment - payroll costs charged to FFY 2002 corrected to FFY 2003, see section "Expenses Charged to the Wrong Year."

*2 Adjustment - \$296,871 in unsupported Labor costs and offsets, \$11,948 in unsupported Multifund costs, \$11,710 unallowed Legislative Affairs Office, \$3,297 unallowed breaks, \$5,540 unallowable parking lot costs, (\$2,704) telecommunication usage charged to the wrong year.

*3 Adjustment - \$1,381,094 unliquidated obligations unsupported by authorized contracts or purchase orders, and \$110,876 subsequent rental costs incurred in FFY 2004, but charged to FFY 2003.

Agency Comments

August 09, 2005

Administrative Costs Claimed by the Pennsylvania Bureau of Disability Determination (A-15-04-1080)--Philadelphia Region Response

Our comments on the SSA OIG Audit of Administrative Costs Claimed by the Pennsylvania Bureau of Disability Determination (BDD) (A-15-04-14080) for Fiscal Years ending 2002 and 2003 are presented below. We have reviewed and taken into account the Pennsylvania Department of Labor & Industry's (PA L&I) response to the draft report which was provided directly to you.

Recommendation 1:

Work with the PA-L&I to determine the validity of the charges of \$433,291 in Federal Fiscal Year (FFY) 2002 and \$296,871 in FFY 2003 in unsupported PA-L&I direct labor, as well as \$11,948 in FFY 2003 Multifund costs, which would allow a reviewer to understand why costs were charged to the PA-BDD and the purpose of the services.

- We will work with the PA-L&I to determine the validity of the direct labor charges. While the documentation provided by the PA-L&I does not support the stated charges in accordance with regulations, it does provide information on how these costs were charged and the purpose of the services. We will work with PA-L&I so that future direct labor charges reflect actual effort provided to the PA-BDD.
- We will work with the PA-L&I to determine the validity of the FFY 2003 multi-fund costs. The system deficiency that created this one time event has been corrected to ensure this will not occur in the future.

Recommendation 2:

Instruct the PA-L&I and PA-BDD to reimburse SSA for \$21,285 in FFY 2002, and \$11,710 in FFY 2003 for unallowable costs of the Legislative Affairs Office (LAO), and \$3,297 in FFY 2002 and \$3,297 in FFY 2003 for the allocation of an employee's breaks charged to PA-BDD.

- We agree that PA-L&I costs allocated to PA-BDD for the Legislative Affairs Office (LAO) are unallowable costs and will instruct the PA-L&I to reimburse SSA for these charges in the amount of \$21,285 for FFY 2002 and \$11,710 for FFY 2003.

- We agree that the PA-L&I should reimburse the charges of \$3,297 for FY 2002 and \$3,297 for FFY 2003. The allocation of an employee's breaks was acknowledged by the PA-L&I as an anomalous occurrence and corrective action has been taken by PA-L&I to discontinue this practice.

Recommendation 3:

Instruct the PA-L&I and PA-BDD to discontinue the practice of charging PA-BDD for parking costs at the PA-L&I and reimburse SSA the parking costs of \$4,289 for FFY 2002 and \$5,540 for FFY 2003.

- We agree with the recommendation and will instruct PA-L&I to reimburse SSA in the amounts of \$4,289 and \$5,540 respectively for FFYs 2002 and 2003.

Recommendation 4:

Improve internal controls over the obligation process to ensure only properly supported obligations are recorded and deobligate the invalid move/expansion unliquidated obligations of \$770,775 for FFY 2002 and \$1,381,094 for FFY 2003

- We agree with the recommendation in the draft report. The PA L&I response to this recommendation shows that unliquidated obligations in FFY 2002 have already been deobligated from FFY 2002, and the balance of unliquidated obligations in FFY 2003 are in the process of being deobligated.

Recommendation 5:

Improve internal controls to prevent costs from being charged to incorrect FFYs and make correction entries to adjust \$132,493 of costs charged to the wrong FFYs.

- We agree with the recommendation in the draft report. The PA L&I response to this recommendation shows that the items listed in the audit report have been transferred to the correct FFY.

Recommendation 6:

Improve security in the PA BDD computer rooms by restricting possible access through the open ceiling.

- We agree with the recommendation in the draft report. The PA L&I response shows that corrective action has been taken or is underway.

Recommendation 7:

Reinforce good security habits to ensure all staff log off their computers when stations are unattended.

- We agree with the recommendation in the draft report. The PA L&I response indicates that corrective action has been taken.

Recommendation 8:

Increase the security of the Wilkes-Barre location through installation of IDS in staff work areas where windows and rooms have no sensors.

- We agree with the recommendation in the draft report. The PA L&I response states that this recommendation will be met when the Wilkes-Barre office relocates in October 2005.

We appreciate the opportunity to comment. If you have any questions, please contact Betty Martin in the Center for Disability Programs at 215-597-2047.

Appendix E

State Agency Comments



THE SECRETARY
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June 30, 2005

05 JUL - 6 AM 8:58
SSA/OIG

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

Re: Audit A-15-04-14080

Dear Mr. O'Carroll:

The Pennsylvania Department of Labor and Industry is in receipt of the Inspector General draft report entitled, "Administrative Costs Claimed by the Pennsylvania Bureau of Disability Determination (A-15-04-14080)". The enclosed documentation serves to provide additional information and explanations relative to the draft findings presented.

We appreciate the opportunity to fully address the issues cited and to submit these attachments as explanatory and supportive information to the initial findings. If you have any questions during the review of this documentation or require additional information, please contact our Department's Audit Coordinator, Ms. Coletta B. Railing at (717) 787-6759.

Sincerely,

Stephen M. Schmerin

Cc: Mr. Joel Weisberg
Mr. Howard Hughes
Ms. Connie S. Huber

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"Auxiliary aids and services are available upon request to individuals with disabilities"

COMMONWEALTH OF PENNSYLVANIA BUREAU OF DISABILITY DETERMINATION

EXECUTIVE SUMMARY

The Office of Inspector General, Social Security Administration began an audit of the Pennsylvania Bureau of Disability Determination, which is under the auspice of the Pennsylvania Department of Labor, and Industry (L&I) by letter dated December 30, 2003. The audit included a review of administrative costs claimed by the Pennsylvania Bureau of Disability Determination for the Federal fiscal years ending September 30, 2002 and September 30, 2003. An exit conference to present the findings was held on January 12, 2005. During fieldwork, PA L&I provided all documentation requested. PA L & I agrees with the conclusion that states Pennsylvania had adequate controls over the \$144 million in administrative costs claimed during the two-year audit period. The draft audit report, utilizing the selected sampling methodology, states that about two percent of the costs for the two-year period could not be substantiated. The PA L&I is not in agreement with this conclusion, nor with the Results of Review contained in the draft audit report. The PA L&I exercises judicious control over all Federal funding. The findings presented in the draft audit report neglected to include vital explanatory and supportive documentation provided by PA L&I to the auditors both throughout the course of the audit as well as at the exit conference. Following the exit conference, the auditors also declined the submission of additional written documentation, designed to further clarify the potential issues cited.

The PA L&I welcomes this opportunity to present additional information and explanation relative to the draft audit findings presented. We would ask that this information be considered prior to the issuance of the final audit report.

RESPONSE TO SSA OIG AUDIT REPORT DRAFT FINDINGS

I. UNSUPPORTED ALL OTHER NONPERSONNEL COSTS

A. Insufficiently Supported Direct Labor Costs, Unsupported Multifund Cost Allocations and Unallowable Allocation of Parking

1. SSA OIG states that they were unable to determine whether the PA-BDD received a benefit from the services charged by PA L&I to PA BDD in the amount of \$730,162.00 over the two-year audit period. Further, OIG states that they were unable to determine the basis for the direct charges. The OIG recommends that the SSA RO work with PA L&I to determine the validity of these costs.

We disagree with this section of the finding for the following reasons:

The Pennsylvania Department of Labor & Industry directly distributes a percentage of certain, one time miscellaneous central service type costs to all Bureaus within the Department including the Bureau of Disability Determination. The percentages are developed based on data appearing in the approved indirect cost allocation plan. This distribution of costs is known as the Multifund Cost Allocation. The allocation methodology has existed in the Department for over fifteen years.

The plan allocates as departmental indirect costs the state-funded costs of central services bureaus directors and their immediate support staff and have been computed based on direct salary and fringe benefit expenditures incurred. The Federal Indirect Cost Negotiator approves the submitted indirect cost plan and subsequent determination rate after careful scrutiny to determine if it benefits Federal programs. The remaining costs of each of the central services bureaus are directly identified to and funded by each Federal and State program as direct costs. A direct cost time distribution system is maintained by the Department to track and document direct charges of services to program functions. This allocation methodology has existed in the Department for over fifteen years.

The Department disagrees with the auditors' conclusion that they were unable to determine the basis for charging time to PA BDD. The methodology utilized within the Department includes various methods of timesheet

reporting, in keeping with Federal and State regulations. Employees report a breakdown of time or percentage charged based on time spent on various bureau related activities, projects, and assignments. One Bureau, containing several of the thirteen employees tested in the audit, charged time equally among all program areas because they were performing analyses of all bureaus to ascertain procedures, duties, related forms, etc. in order to eliminate duplicity and improve proficiency, expediency and service throughout the Department.

The Indirect Cost Allocation Plan correctly states, "the costs allocated to operate bureaus and programs in this plan are for support services to ensure high levels of operating efficiency and effectiveness. If these services were not provided centrally, the users would have to provide them as part of their own operations to achieve effective administration of their programs." See Exhibit A for the resources provided by the central services bureaus as included in the Indirect Cost Plan. As BDD currently does not employ individuals to perform the services provided by the central services bureaus, the cost to hire and retain employees to perform these varied functions would cost far more than the amount charged under the current direct cost allocation plan. Using the amount of \$730,162.00 cited by OIG, the total questioned amount in the category represents approximately one half of one percent of the total BDD budget during FFY 2002 and 2003.

Therefore, PA L&I maintains that the validity of these costs has been established and no further action on the part of the SSA RO is required.

Insufficiently Supported Direct Labor Costs

2. SSA OIG states that there is \$49,418 in All Other Nonpersonnel Costs that did not benefit SSA's programs and should be refunded in total. These costs include employee breaks of \$6,594, lobbying costs of \$32,995 and parking costs of \$9,829.

PA L&I disagrees with this finding and maintains that all Other Nonpersonnel Costs listed are reasonable and necessary.

Employee Breaks of \$6,594

The Commonwealth employs individuals who work on various programs and charge their time accordingly. The one instance of an employee charging breaks only to BDD was an anomalous occurrence. During the time period audited, this employee's work area had merged several employees from various Bureaus. This employee had been assigned to the BDD Bureau as his "home" payroll for reporting purposes. The employee had been instructed that time not utilized on a specific Bureau's work project should be charged to his "home" payroll code. As BDD was his "home" payroll, the result was that although he performed work for Bureaus other than BDD during this tested

timeframe, the paid break time reverted to the BDD payroll. This practice has since been discontinued and employees' rest periods are no longer charged to BDD.

Lobbying Costs of \$32,995

The PA L&I disagrees with the characterization of the costs charged by one employee who works in the Legislative Affairs Office (LAO) as "lobbying costs". The LAO acts as a liaison between the PA L&I and the Legislature. The cited objective of the LAO in the audit report that employees of the LAO "attends legislative sessions to monitor and influence the progress and substance of legislation affecting the Department" is incomplete and misleading unless the entire LAO objective is reviewed and this phrase taken in context. The entire mission of the LAO as provided in the Indirect Cost Allocation Plan is as follows:

"The Legislative Affairs Office provides analytical, developmental, research and informational services within the Department of Labor and Industry with respect to all legislation affecting departmental programs. The Office maintains a liaison with the Pennsylvania Legislative Reference Bureau, other State Agencies, U.S. Government Agencies, and other offices and organizations concerned with legislation and regulations affecting programs administered by the Department. Attends legislative sessions to monitor and influence the progress and substance of legislation affecting the Department. Responds to legislative inquiries."

It is true that if the Legislature introduces a bill that the administration wishes to support for the benefit of its constituents and citizens of the Commonwealth, it is incumbent upon the Legislative Affairs Office to promote the acceptance of it. However, this practice does not apply to the Bureau of Disability Determination due to the very nature of its program. The primary function that the LAO performs for BDD is receiving, researching and responding to legislative inquiries. Numerous inquiries are made each year by claimants to their state and federal legislators requesting clarification of information they have received from BDD or seeking reconsideration of their case. These cases are received and coordinated by the LAO to ensure complete, accurate responses are provided in a timely manner.

Unallowable Allocation of Parking

Parking Costs of \$9,829

These parking charges are for the central services bureau staff for which portions of their costs are allocated to BDD. These employees perform services for multiple bureaus, and are funded by each Federal and State program in the Department using the percentage allocation of the multi-fund. These charges are part of the cost incurred by the central services bureaus similar to salaries, benefits and other operating expenses. BDD is treated no

differently than the other bureaus within PA L&I who are also assessed a percentage allocation of this cost. The benefits received by BDD from the employees in the central service bureau are clearly described in Exhibit A.

The PA L&I maintains that the validity of these costs has been established and no further action on the part of the SSA RO is required.

Unsupported Multifund Cost Allocation

3. OIG states that they question \$11,948 in unsupported multifund costs because they could not determine if BDD benefited from these charges. The OIG is not requesting the return of this funding, only that the SSA RO work with PA L&I to determine the validity of these costs.

PA L&I disagrees with this finding as BDD did benefit from the services charged through the Multifund Cost allocation process. No further action is necessary on the part of the SSA RO.

The distribution of costs known as the Multifund Cost Allocation are also described in this document under I(A)(1) as part of Nonpersonnel Costs.

With the implementation of SAP in July 2003, the multifund cost allocation process became an automated procedure. The allocation percentages were loaded in to a SAP table and SAP calculated and distributed the allocated costs twice a month. For the period July 2003 through June 2004, the Bureau of Disability Determination allocation percentage was 9.8%.

During the period July 2003 to September 2003, the automatically allocated costs charged to BDD were slightly less than expected and totaled only 8.9%. This minor percentage difference could not be documented. Through further review during October 2004, it was found that the allocated amounts to BDD started to hit the 9.8% exactly. While October 2004 is outside the scope of the audit it does demonstrate the automatic allocation process began functioning as expected.

The Department believes that invoice documentation was available for most of the 198 multifund transactions to identify the types of central services that were being charged through the Multifund Cost allocation process. The Department also strongly believes that BDD did benefit from these services and these costs should be charged to the Bureau. The Department disagrees with the auditors' position that all multifund allocations costs for the July to September 2003 period did not have sufficient supporting documentation.

II. UNSUPPORTED UNLIQUIDATED OBLIGATIONS

OIG states that there are unsupported unliquidated obligations in the amount of \$2,151,869 for FFY 2002 and FY 2003.

Although PA L&I disagrees on whether appropriate documentation was present, BDD has already deobligated all unliquidated obligations from FY 2002. Through recent discussions with SSA RO, the balance of the unliquidated obligations in FY 2003 are being deobligated, therefore, no further action is required on the part of SSA RO.

III. EXPENSES CHARGED TO THE WRONG FEDERAL FISCAL YEAR

OIG identified transactions totaling \$132,493 that were charged to the wrong FFY.

Errors between fiscal years occur. However, PA L&I disagrees with this finding and maintains that current internal controls to detect these errors between fiscal years are effective.

Expenditure amounts for the four items listed in the audit report have been transferred to the correct FFY's as recommended. The lease payments were corrected in February 2004, prior to our receipt of the OIG's audit sample request. The other three items were corrected in June 2005. Revised final SSA-4513s will be submitted for the '01 and '02 FFYs. The corrections to the '03 and '04 FFY will be reflected on the June 30, 2005 SSA-4513s.

The Labor and Industry Federal Accounting Division has intensified its ongoing review of program costs for all open FFYs. Direct charges, those not liquidated against a funds commitment, to FFYs other than the current year are reviewed to determine the value date of the goods or services provided. Those not coded to the correct FFY are transferred accordingly. The Division has been working closely with L&I Agency personnel to make certain that new hires are coded properly for labor distribution and that interface files for costs such as telecommunications and purchasing card transactions are updated at the beginning of each FY.

IV. GENERAL SECURITY DEFICIENCIES

OIG identified three control weaknesses in the general security controls environment of the three BDD locations.

BDD agrees with the identified weaknesses and has corrected or is in the process of correcting these weaknesses as identified below.

Security of Computer Rooms

An Intrusion Detection System (IDS) has been installed or is in the process of being installed in all three computer rooms at all three listed locations.

Unattended Workstations

To ensure all staff log off workstations when they are unattended, the Director of the Bureau is sending statewide reminders once every two months. This reminder advises all staff it is a serious security violation to leave a workstation unattended and unlocked for any period of time.

Wilkes-Barre Work Areas

Although an IDS covered internal hallways, perimeter rooms are not covered. The Wilkes-Barre office is moving its location in October 2005. The new office space and lease requirements include enhanced security that conforms to the OIG recommendations.

CONCLUSION

The PA L&I and BDD have demonstrated adequate controls over the \$144 million in administrative costs claimed during the two-year audit period ending September 30, 2003. Sufficient documentation has been provided to verify expenses and we have reiterated the benefits PA BDD received from the costs questioned. The supporting documentation provided supports the \$730,162 of labor costs charged by PA L&I. Similarly, the parking costs of \$9,829 and the charges from the LAO of \$32,995 have been supported as allowable costs necessary to the effective and efficient administration of the program. The \$11,948 in multifund costs occurred at a time when the allocation transfer became automated and certain problems did occur in system coding. However, the PA L&I maintains that the validity of these costs has been established and no further action from SSA RO is required.

The PA L&I agrees as follows:

- All unliquidated obligations from FFY 2002 have already been de-obligated. All remaining FFY 2003 unliquidated obligations are in the process of being de-obligated.
- The identified control weaknesses in the general security controls environment are acknowledged and have been corrected or are in the process of being corrected.

We look forward to your review of this document and receipt of your final audit report.

Appendix F

OIG Contacts and Staff Acknowledgments

OIG Contacts

Victoria Vetter, Director (410) 966-9081

Lance Chilcoat, Audit Manager (410) 965-9743

Acknowledgments

In addition to those named above:

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Jackie Patel, Senior Auditor

Richard Wilson, Senior Auditor

Ronald Anderson, Auditor

Brennan Kraje, Statistician

Annette DeRito, Writer/Editor

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