
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED
BY THE DISTRICT OF COLUMBIA
DISABILITY DETERMINATION DIVISION
FOR FISCAL YEARS 2001 AND 2002**

November 2005 A-15-05-30018

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.

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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.**

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Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.



SOCIAL SECURITY

MEMORANDUM

Date: November 8, 2005

Refer To:

To: Laurie Watkins
Regional Commissioner
Philadelphia

From: Inspector General

Subject: Administrative Costs Claimed by the District of Columbia Disability Determination Division for Fiscal Years 2001 and 2002 (A-15-05-30018)

OBJECTIVE

The objectives of our audit of the District of Columbia Disability Determination Division (DDD) for Fiscal Years (FY) 2001 and 2002 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 on a limited basis the general security controls environment.

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 DI and SSI are performed by disability determination services (DDS) in each State, Puerto Rico and the District of Columbia in accordance with Federal regulations.¹ Each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To make 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.

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

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*. At the end of each quarter for the 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.⁴ The Form SSA-4513 reports expenditures and unliquidated obligations for Personnel Service Costs, Medical Costs, Indirect Costs, and All Other Nonpersonnel Costs.

DDD is the DDS for the District of Columbia. The DDD is a component within the Department of Human Service's (DHS) Rehabilitation Services Administration (RSA). DDD's sole function is to process SSA disability determinations. DDD's financial reporting functions were the responsibility of DHS.

DHS claimed costs of \$4,633,761 for FY 2001 and \$5,733,820 for FY 2002 on DDD's Forms SSA-4513, dated October 30, 2002 and December 3, 2003, respectively.

To provide timely feedback to DHS and SSA regarding the internal controls over costs claimed by DHS, we issued an Office of the Inspector General (OIG) report, *Administrative Costs Claimed by the District of Columbia Disability Determination Division* (A-15-04-14052) on August 13, 2004. In that report, we explained that Forms SSA-4513 submitted by DHS for FYs 2001 and 2002 contained misstatements, which may lead to incorrect or unintentional conclusions. In response to our previous OIG report, SSA's Philadelphia Regional Office and DHS agreed with our recommendations. The results and recommendations from our previously issued report are listed in Appendix C. Because of the conditions identified in the earlier report, we expanded our audit tests to understand better how these control deficiencies impacted DHS' financial accounting and reporting practices.

² 31 C.F.R. § 205.1 *et seq.*

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

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

DHS claimed net unallowable costs of \$106,102 for FYs 2001 and 2002, which should be refunded to SSA. Moreover, there was almost \$1.5 million in costs (including \$257,750 in unliquidated obligations) that could not be substantiated because DHS did not provide documentation. Also, SSA should direct DHS to institute internal control measures to prevent the misclassification of costs, and where warranted, reclassify costs.

DHS did not have adequate internal controls in place to monitor its accounting operations on a continuous basis to ensure compliance with SSA's Program Operations Manual System (POMS) Chapter DI 39500 and OMB Circular A-87. However, our review of cash draws and limited review of the general controls environment for DDD did not identify deficiencies.

UNALLOWABLE COSTS

We determined the net unallowable costs claimed for the DDD totaled \$106,102. The unallowable costs were the net of three cost items: (1) unallowable distributed costs, plus (2) improper entity costs, minus (3) allowable costs not claimed. DHS should refund to SSA the net amount of unallowable costs.

Unallowable Distributed Costs

For the All Other Nonpersonnel Costs category, DHS reported net unallowable costs for guard services, occupancy (rent), and utility expenses of \$101,945 and \$73,628 for FYs 2001 and 2002, respectively. DHS' distributions were unreasonable because the actual costs were readily available and SSA funded more than its appropriate share of costs. OMB Circular A-87 states: "...costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards."⁵ To determine the allowable costs for guard service, occupancy, and utility DHS should have charged to the DDD, we analyzed source documents such as invoices and the lease.

The unallowable costs occurred because DHS used a cost distribution methodology that resulted in higher costs than actual costs incurred by DDD. The distributions were based on budget estimates. The components' individual budget estimates were divided into the "pooled" total of budgeted costs to derive a percentage for each component. The components' percentage was applied to the total actual costs incurred by all DHS components.

⁵ OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, section (C)(1)(a) (as amended August 29, 1997).

FY 2001			
Distributed Cost Items	Claimed Costs	Verified Costs	Overstatement (Understatement)
Guard Service	\$ 135,727	\$ 24,822	\$ 110,905
Occupancy	\$ 225,000	\$ 263,960	\$ (38,960)
Utility*	\$ 30,000	\$ -	\$ 30,000
Net Total	\$ 390,727	\$ 288,782	\$ 101,945

*Our review of the lease for the DDD showed utility costs were already included in rent. DHS should not have allocated any utility costs to the DDD.

FY 2002			
Distributed Cost Items	Claimed Costs	Verified Costs	Overstatement (Understatement)
Guard Service	\$ -	\$ 25,318	\$ (25,318)
Occupancy	\$ 375,085	\$ 276,139	\$ 98,946
Net Total	\$ 375,085	\$ 301,457	\$ 73,628

Improper Entity Costs

DHS overcharged DDD a net amount of \$29,302 for FY 2001 Personnel Costs (for medical consultants) and All Other Nonpersonnel Costs were improperly recorded to the wrong entity (see schedule in Appendix E). Costs belonging to RSA were recorded for DDD and costs belonging to DDD were recorded for RSA. Federal regulations provide that States be reimbursed for expenses incurred for program purposes.⁶ We could not find controls in operation which would prevent or detect charges to the wrong entity. DHS reimbursed SSA \$13,683 based on our previous report's recommendations.⁷ Therefore the balance of \$15,619 should be paid to SSA.

Allowable Costs Not Claimed

We traced supporting documents from the vendor files for All Other Nonpersonnel costs for FYs 2001 and 2002 to the accounting records. We found supporting documentation for All Other Nonpersonnel Costs of \$10,880 and \$74,210 for FYs 2001 and 2002, respectively, which were not recorded in DHS' accounting records as DDD expenses. These costs were allowable under OMB Circular A-87 which states: "...costs must be necessary and reasonable for proper and efficient performance and administration of Federal awards."⁸ DDD did not have internal controls in place, which would detect the costs not recorded against its proper funding authority.

⁶ 20 C.F.R. §§ 404.1626(a) and 416.1026(a).

⁷ *Administrative Costs Claimed by the District of Columbia Disability Determination Division* (A-15-04-14052), August 13, 2004.

⁸ OMB Circular A-87, Attachment A, section (C)(1)(a) (as amended August 29, 1997).

	Unallowable Costs			Total
	FY 2001	FY 2002		
Unallowable Distributed Costs	\$ 101,945	\$ 73,628		\$ 175,573
Improper Entity Costs	\$ 15,619	\$ 0		\$ 15,619
Allowable Costs Not Claimed	\$ (10,880)	\$ (74,210)		\$ (85,090)
Total	\$ 106,684	\$ (582)		\$ 106,102

SSA should direct DHS to reimburse SSA for the total net unallowable costs of \$106,102 as shown in the table above. To avoid future unallowable costs, DHS should establish a strong system of internal controls over its accounting operations.

Unsupported Costs

We determined there were unsupported costs claimed for the DDD that totaled \$1,463,020. OMB Circular A-87 states, "To be allowable under Federal awards, costs must...be adequately documented."⁹ Also, SSA's POMS require agencies retain financial records and supporting documentation until a Federal audit has been performed and all findings have been resolved.¹⁰ The unsupported costs were the net of unsupported Medical Evidence Costs, unsupported medical consultant costs, and unsupported All Other Nonpersonnel Costs.

Unsupported Medical Evidence Costs

We determined discrepancies of Medical Evidence Costs occurred between the Forms SSA-4513 and the DDD claims processing system¹¹ as a result of improper recording and reporting of obligations. We compared medical costs on the Forms SSA-4513 to the DDD's claims processing system data known as AS400. The AS400 data should be the only source of Medical Evidence Costs in the flow of transactions for accounting for medical costs. Our comparison of medical costs showed RSA and DHS overstated DDD's Medical Evidence Costs of \$228,912 for FY 2001 and \$450,302 for FY 2002 costs.

Medical Evidence Costs			
FY	Reported in SSA-4513	AS400	Overstated Costs
2001	\$ 1,396,016	\$ 1,167,104	\$ 228,912
2002	\$ 1,689,897	\$ 1,239,595	\$ 450,302

We determined that \$16,150 of the \$450,302 overstated FY 2002 costs claimed for DDD were caused by All Other Nonpersonnel Costs incorrectly recorded as Medical

⁹ OMB Circular A-87, Attachment A, section (C)(1)(j) (as amended August 29, 1997).

¹⁰ SSA, POMS DI 39509.005 C.1.b.

¹¹ Disability claims are processed on an IBM Corporation Model AS/400 computer using I-Levy software.

Evidence Costs (see Incorrect Cost Category on page 7). DHS accountants could not provide us with supporting documents for the remaining difference of \$434,152. SSA should work with DHS to determine the validity of the unsupported costs for medical evidence, and DHS should refund to SSA any costs for which support can not be provided.

Unsupported Medical Consultant Costs

We determined there were discrepancies between the supporting documentation and the amounts reported on the Forms SSA-4513. To determine the actual costs, we reconstructed the medical consultant costs using the medical consultant invoices. We reviewed and then summed 100 percent of the medical consultant payment vouchers to derive the actual costs. We compared the vouchers' total to the accounting records. We determined there were two areas of concern relating to the differences between the vouchers total and the accounting records. First, there were misclassified All Other Nonpersonnel Costs recorded as medical consultant costs. (See the discussion Improper Entity Costs on page 4 and Incorrect Cost Category on page 7.) Second, DHS could not provide documentation supporting the remaining differences. DHS understated the amount claimed for medical consultant costs in FY 2001 by \$30,885 and overstated the amount claimed in FY 2002 by \$258,631.

Medical Consultant Costs						
FY	Accounting Records	Less: Improper Entity Costs	Less: Incorrect Cost Category	Subtotal	Consultants' Invoices	Over/ (Understated) Costs
2001	\$ 458,088	\$ 810	\$ 138,948	\$ 318,330	\$ 349,215	\$ (30,885)
2002	\$ 771,040	\$ -	\$ 182,308	\$ 588,732	\$ 330,101	\$ 258,631

SSA needs to work with DHS to determine the validity of the unsupported costs for medical consultants, and DHS should refund any costs for which support can not be provided.

Unsupported All Other Nonpersonnel Costs

For FY 2002, DHS claimed disbursements of \$137,658 and unliquidated obligations of \$257,750 for construction at the DDD location.¹² However, DHS could not provide us with supporting documentation such as invoices and contracts for the construction costs. Also, DHS could not provide supporting documents for dictation, courier, temporary staff, office supply, travel, and postage expenses of \$78,648 for FY 2001 and \$6,712 for FY 2002.

In addition, DHS claimed telephone costs were allocated in the same manner as the guard service, occupancy and utility costs as described previously. (See Unallowable

¹² 810 1st Street Northeast, Washington, DC.

Distributed Costs on page 3.) For FY 2002, we were not able to verify \$52,939 of the \$62,937 telephone costs claimed for the DDD. Furthermore, DHS could not provide us documents to support the telephone costs of \$37,937 for FY 2001.

SSA needs to work with DHS to determine the validity of the net unsupported costs claimed for the DDD, and DHS should refund any disbursements claimed for which support can not be provided.

Incorrect FY Recording and Reporting

We found obligations of \$61,804 in All Other Nonpersonnel Costs that were recorded and reported in the wrong FY. RSA misclassified \$566 of FY 2000 costs and \$61,238 of FY 2002 costs as FY 2001 obligations.¹³ Throughout this audit, we have identified examples of how internal control weaknesses impacted DHS' accounting and reporting practices. POMS states, "Obligations must be based on a bona fide need for goods or services that exist within the Federal fiscal year...."¹⁴ While costs may have been expended for allowable purposes, the financial reporting of information in the wrong FY does not provide decision makers with accurate information on which to base budgetary and management decisions.

DDD did not have internal controls in place, which would detect the costs not properly recorded. DHS needs to reclassify the misclassified costs of \$566 and \$61,238 charged to FY 2001 to FYs 2000 and 2002, respectively. Also, DDD needs to reconcile its purchases to the accounting reports maintained by DHS.

Incorrect Cost Category

Medical consultant costs, a component of Personnel Costs were overstated and All Other Nonpersonnel Costs were understated by \$138,948 and \$182,308 for FYs 2001 and 2002, respectively. Our review of all medical consultant invoices showed RSA had misclassified All Other Nonpersonnel Costs for dictation services, courier services, and temporary staff as medical consultant costs. POMS require that each cost category be reported on the proper line on Form SSA-4513.¹⁵

Similarly, RSA incorrectly classified All Other Nonpersonnel costs as Medical Evidence Costs. Specifically, computer consultant costs were charged as Medical Evidence Costs. An administrative officer told us the budget for All Other Nonpersonnel Costs was already expended so those costs were classified as Medical Evidence Costs. As a result, All Other Nonpersonnel Costs were understated and Medical Evidence Costs were overstated by \$16,150 for FY 2002. The financial reporting of information in the

¹³ An obligation is a financial or related transaction that creates a legal obligation to pay.

¹⁴ SSA, POMS DI 39506.200 B.1.

¹⁵ SSA, POMS DI 39506.210 D.i.

wrong cost category does not provide decision makers with accurate information on which to base budgetary and management decisions.

We did not find controls in operation, which would prevent or detect charges to the inappropriate entity or account. DHS needs to implement controls to prevent or detect such inappropriate charges, and where warranted, reclassify the costs to the proper accounts.

CONCLUSION AND RECOMMENDATIONS

The conditions identified in this report reflect the impact of the internal control deficiencies that were reported in our prior report.¹⁶ As a result, the Forms SSA-4513 submitted by DHS for FYs 2001 and 2002 contained misstatements which may lead to incorrect or unintentional conclusions. The misstatements were due to poor accounting by DHS. As a result, DDD claimed more costs than it should have.

We recommend SSA (See Appendix F for the details of the recommendations):

1. Instruct DHS to refund to SSA \$106,102 for the unallowable costs.
2. Work with DHS to determine the validity of net unsupported costs of \$376,416 and \$1,086,604 for FY 2001 and 2002, respectively, and require DHS to refund any disbursements claimed for which support can not be provided.
3. Instruct DHS to reclassify, where warranted, FY 2001 Personnel Costs of \$138,948 to All Other Nonpersonnel Costs and FY 2002 Personnel Costs of \$182,308 and Medical Evidence Costs of \$16,150 to All Other Nonpersonnel Costs and to implement appropriate controls to prevent misclassification from occurring in the future.
4. Instruct DHS to institute internal control measures that ensure proper recording of costs on the Form SSA-4513.
5. Instruct the DDD to reconcile its All Other Nonpersonnel purchases to the accounting reports maintained by DHS.

¹⁶ *Administrative Costs Claimed by the District of Columbia Disability Determination Division* (A-15-04-14052), August 13, 2004.

SSA COMMENTS

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

DHS COMMENTS AND OFFICE OF THE INSPECTOR GENERAL RESPONSE

DHS agreed with our recommendations. DHS' comments may be found in Appendix H. Because of the length of DHS' comments, we did not include its Enclosures in Appendix H. A complete copy may be obtained by written request to the OIG contacts mentioned in Appendix I.



Patrick P. O'Carroll, Jr.

Appendices

[**APPENDIX A**](#) – Acronyms

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

[**APPENDIX C**](#) – Summary of First Report in Series

[**APPENDIX D**](#) – Schedule of Obligations Reported, Audit Adjustments and Adjusted Costs

[**APPENDIX E**](#) – Improper Entity Costs – Fiscal Year 2001

[**APPENDIX F**](#) – Recommendations

[**APPENDIX G**](#) – Agency Comments

[**APPENDIX H**](#) – DHS Comments

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

Appendix A

Acronyms

Act	Social Security Act
C.F.R.	Code of Federal Regulations
DC	District of Columbia
DDD	District of Columbia Disability Determination Division
DDS	Disability Determination Services
DHS	District of Columbia Department of Human Services
DI	Disability Insurance
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
RSA	Rehabilitation Service Administration
SSA	Social Security Administration
U.S.C.	United States Code
SSI	Supplemental Security Income
Treasury	United States Department of the Treasury

Scope and Methodology

We audited the administrative costs claimed on the Social Security Administration (SSA) State Agency Report of Obligations for SSA Disability Programs, (Form SSA-4513) for Fiscal Year (FY) 2001, dated October 30, 2002, and FY 2002, dated December 3, 2003, for the District of Columbia (DC) Division of Disability Determinations (DDD).

We initially identified significant problems with the District of Columbia's Department of Human Services' (DHS) accounting operations for the DDD. We reported the problems in our report entitled, *Administrative Costs Claimed by the District of Columbia Disability Determination Division* (A-15-04-14052) issued on August 13, 2004. Our present report represents the completion of our audit of DDD's administrative costs.

We obtained evidence to evaluate the appropriateness of recorded financial transactions under the provisions of Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments* and the Social Security Administration's *Program Operations Manual System*.

We also:

- reviewed applicable Federal laws and regulations, SSA's Program Operations Manual System and other applicable instructions that pertained to administrative costs incurred by DDD;
- interviewed DHS, Rehabilitation Services Administration (RSA) and DDD staff;
- documented our understanding of the systems of internal control over the accounting and reporting of DDD administrative costs;
- reconstructed accounting records to determine actual costs incurred for FYs 2001 and 2002;
- traced the DDD administrative costs DHS reported on Forms SSA-4513 to its accounting records;
- evaluated and tested internal controls regarding accounting and financial reporting and cash management activities, as well as the draw down of SSA funds;

- analyzed DHS' draw downs of SSA funds and reconciled them with reported expenditures;
- conducted a physical inventory of computer equipment SSA provided to DC-DDD during our audit period;
- examined, on a limited basis, the general security controls environment of the DDD;
- reviewed prior audit reports and related work papers;
- compared 100 percent of the consultative examinations' rates to Medicare fee schedules;
- traced 100 percent of the medical consultant payment transactions in the accounting records to the supporting documents;
- compared Medical Evidence Costs from the DDD claims processing system records to those costs reported in the DHS accounting system and claimed on its Forms SSA-4513; and
- recalculated Indirect Costs.

We determined the data in the accounting records was not sufficiently reliable given the audit objective and intended use of the data. We base this determination on the alterations made to the accounting records and our tests which resulted in significant (or potentially significant) problems. Because the use of this data could lead to an incorrect or unintentional message, we completed additional tests, such as recomputations and reconstruction of the account balances, to provide support for our findings.

We performed work at the DHS, RSA and DDD in Washington, DC. We conducted our audit work from October 2003 through November 2004. Our audit work was completed in accordance with generally accepted government auditing standards.

Sampling Methodology

Our sampling methodology was applied to three general areas of costs as reported on Form SSA-4513: (1) Personnel Costs, (2) Medical Evidence Costs, and (3) All Other Nonpersonnel Costs. We obtained data extracts from the DHS' financial accounting system and the DDD's medical evidence claims processing system for FYs 2001 and 2002 to use in our statistical sampling. We also obtained DDD payroll registers and medical consultant invoices and time sheets. After selecting and reviewing the transactions, we did not make statistical projections. We used actual costs for the errors identified during our review.

Medical Evidence Costs

We selected 200 Medical Evidence Cost items (100 items from each FY) for review using a stratified random sample. We distributed the sample items equally between medical evidence of records and consultative examinations.

Personnel Costs

We reviewed 50 personnel transactions from the DDD payroll registers for each of the FYs 2001 and 2002 using a systematic sampling technique. We tested the payroll transactions to ensure the DDD accurately paid its employees and adequately supported the payments. In addition, we compared 100 percent of the invoices and time sheets for the medical consultants hired by the DDD to the data extracts from the DHS financial accounting system for FYs 2001 and 2002.

All Other Nonpersonnel Costs

We reviewed 84 and 69 All Other Nonpersonnel Cost items for FYs 2001 and 2002, respectively, using a sample selected from the DHS financial accounting system.

Summary of First Report in Series

To fully understand the issues that challenge the District of Columbia's Department of Human Services (DHS), the readers of this report, the second in the series of two reports, should also consider the issues brought forth in the earlier Office of the Inspector General report (OIG) *Administrative Costs Claimed by the District of Columbia Disability Determination Division* (A-15-04-14052), issued on August 13, 2004.

In the earlier OIG audit, we reported the District of Columbia Disability Determination Division (DDD) claimed total obligated costs of \$4,633,761 for Fiscal Year (FY) 2001 and \$5,733,820 for FY 2002 as of September 30, 2002 and September 30, 2003, respectively; however, we believe the *State Agency Report of Obligations for SSA Disability Programs* (Forms SSA-4513) submitted by DHS for FYs 2001 and 2002 contain serious misstatements and may lead to incorrect or unintentional conclusions.

DHS did not comply with:

1. Social Security Administration's (SSA) Program Operations Manual System,
2. Federal laws and regulations, and
3. District of Columbia (DC) government policies and procedures.

The DHS did not have adequate internal controls in place to monitor its accounting operations on a continuous basis to ensure compliance with these requirements. Internal controls should include management and supervisory oversight, comparisons, reconciliations, etc.

The source of the misstatements included problems with:

1. Accounting processes - Discrepancies with recording and reporting of obligations on the Form SSA-4513 because disbursements were being reported in the wrong FY;
2. Movement of costs - Administrative costs claimed for the period under audit identified expenditures charged to incorrect years' funds. DHS did not recognize obligations in the period that the obligations were incurred;
3. Allocation of costs - Basis for the allocations was inappropriate;
4. Classification of costs - Costs recorded as the wrong type of expense or charged to the wrong entity; and

5. Supporting documentation - Documents not readily available for audit examination.

In response to our previous OIG report, SSA's Philadelphia Regional Office and DHS agreed with our recommendations. We recommended SSA:

1. work with the DHS to ensure that the accounting staff is properly trained to account for SSA funds as required;
2. ensure DHS implements systems modifications and controls over its accounting process to validate the accuracy of costs claimed;
3. increase its oversight of the DHS accounting process to detect and correct accounting errors relating to the DDD operations;
4. instruct DHS to reimburse SSA \$13,683 for non-DDD costs charged; and
5. instruct DHS to maintain appropriate documentation, so that it is readily available for audit examination.

**Schedule of Obligations Reported,
Audit Adjustments and Adjusted Costs
for Fiscal Year 2001**

COSTS	REPORTED ON FORM SSA- 4513, dated 10/30/02	AUDIT ADJUSTMENTS	ADJUSTED COSTS
ALL OTHER NONPERSONNEL			
DISBURSED	\$636,462	\$(158,998) ^(a)	\$477,464
UNLIQUIDATED	0	0	0
TOTAL ALL OTHER OBLIGATIONS	\$636,462	\$(158,998)	\$477,464
PERSONNEL			
DISBURSED	\$2,022,464	\$(108,873) ^(b)	\$1,913,591
UNLIQUIDATED	0	\$0	0
TOTAL PERSONNEL OBLIGATIONS	\$2,022,464	\$(108,873)	\$1,913,591
MEDICAL			
DISBURSED	\$1,396,016	\$(228,912) ^(c)	\$1,167,104
UNLIQUIDATED	0	0	0
TOTAL ALL OTHER OBLIGATIONS	\$1,396,016	\$(228,912)	\$1,167,104.
INDIRECT COST			
DISBURSED	\$578,819	\$0	\$578,819
UNLIQUIDATED	0	0	0
TOTAL INDIRECT OBLIGATIONS	\$578,819	\$0	\$578,819
TOTAL DISBURSED	\$4,633,761	\$(496,783)	\$4,136,978
TOTAL UNLIQUIDATED	0	0	0
TOTAL OBLIGATIONS	\$4,633,761	\$(496,983)	\$4,136,978

^(a) Adjustments – \$(139,882) unallowable distributed costs, \$(28,492) improper entity costs, \$10,880 allowable costs not claimed, \$(78,648) unsupported costs, \$(61,804) incorrect FY recording and reporting, and \$138,948 incorrect cost category.

^(b) Adjustments - \$(810) improper entity costs, \$30,885 unsupported costs, and \$(138,948) incorrect cost category.

^(c) Adjustments - \$(228,912) unsupported costs.

Schedule of Obligations Reported, Audit Adjustments and Adjusted Costs for Fiscal Year 2002

COSTS	REPORTED ON THE FORM SSA- 4513, dated 12/3/03	AUDIT ADJUSTMENTS	ADJUSTED COSTS
ALL OTHER NONPERSONNEL:			
DISBURSED	\$651,274	\$62,969 ^(a)	\$714,243
UNLIQUIDATED	257,750	\$(257,750) ^(b)	0
TOTAL ALL OTHER OBLIGATIONS	\$909,024	\$(194,781)	\$714,243
PERSONNEL			
DISBURSED	\$2,501,482	\$(440,939) ^(c)	\$2,060,543
UNLIQUIDATED	0	0	0
TOTAL PERSONNEL OBLIGATIONS	\$2,501,482	\$(440,939)	\$2,060,543
MEDICAL			
DISBURSED	\$1,689,897	\$(450,302) ^(d)	\$1,239,595
UNLIQUIDATED	0	0	0
TOTAL MEDICAL OBLIGATIONS	\$1,689,897	\$(450,302)	\$1,239,595
INDIRECT COST			
DISBURSED	\$633,417	\$0	\$633,417
UNLIQUIDATED	0	0	0
TOTAL INDIRECT OBLIGATIONS	\$633,417	\$0	\$633,417
TOTAL DISBURSED	\$5,476,070	\$(828,272)	\$4,647,798
TOTAL UNLIQUIDATED	257,750	\$(257,750)	0
TOTAL OBLIGATIONS	\$5,733,820	\$(1,086,022)	\$4,647,798

(a) Adjustments – \$(126,567) unallowable distributed costs, \$74,210 allowable costs not claimed, \$(144,370) unsupported costs and \$61,238 incorrect FY recording and reporting, and \$198,458 incorrect cost category.

(b) Adjustments - \$(257,750) unsupported costs.

(c) Adjustments - \$(258,631) unsupported costs, and \$(182,308) incorrect cost category.

(d) Adjustments - \$(434,152) unsupported costs, and \$(16,150) incorrect cost category.

Appendix E

Improper Entity Costs Fiscal Year 2001

DHS overcharged DDD a net amount of \$29,302 for Fiscal Year 2001 Personnel Costs (for medical consultants) and All Other Nonpersonnel Costs that were improperly recorded to the wrong entity.

Improper Entity Costs	FY 2001
All Other Nonpersonnel Costs	
Other Entity Costs Incorrectly Charged to DDD	\$ 36,181
DDD Costs Incorrectly Charged to Another Entity	\$ (7,689)
Total All Other Nonpersonnel Costs	\$ 28,492
Medical Consultant Costs	
Other Entity Costs Incorrectly Charged to DDD	\$ 10,970
DDD Costs Incorrectly Charged to Another Entity	\$ (10,160)
Total Medical Consultant Costs	\$ 810
Net Improper Entity Costs	\$ 29,302

Recommendations

We recommend the Philadelphia Regional Office:

1. Instruct Direct the District of Columbia Department of Human Services (DHS) to refund to the Social Security Administration (SSA) \$106,102 for unallowable costs.

Reporting Items	FY 2001	FY 2002
All Other Nonpersonnel Costs		
Unallowable Distributed Costs		
Guard Service	\$110,905	\$(25,318)
Occupancy	(38,960)	98,946
Utility	30,000	-
Improper Entity Costs*	14,809	-
Allowable Costs Not Claimed	(10,880)	(74,210)
Total All Other Nonpersonnel Costs	\$105,874	\$ (582)
Personnel Costs		
Improper Entity Costs	\$ 810	-
Total Personnel Costs	\$ 810	-
Total Refund	\$106,684	\$ (582)

*DHS had previously reimbursed SSA \$13,683 for non-Disability Determination Division (DDD) costs.

2. Work with DHS to determine the validity of net unsupported costs of \$376,416 and \$1,086,604 for FY 2001 and 2002, respectively, and require DHS to refund any disbursements claimed for which support can not be provided.

Reporting Items	FY 2001	FY 2002
All Other Nonpersonnel Costs		
Unsupported Costs		
Construction	-	395,408
Telephone	\$ 37,937	\$ 52,939
Dictation, Courier and Temporary Staff	70,489	2,140
Office Supplies, Travel and Postage	8,159	4,572
Incorrect FY Recording and Reporting	61,804	(61,238)
Total All Other Nonpersonnel Costs	\$178,389	\$ 393,821
Personnel Costs		
Unsupported Costs		
	\$(30,885)	\$ 258,631
Total Personnel Costs	\$(30,885)	\$ 258,631
Medical Evidence Costs		
Incorrect FY Recording and Reporting		
	\$228,912	\$ 434,152
Total Medical Evidence Costs	\$228,912	\$ 434,152
Total Unsupported Costs	\$376,416	\$1,086,604

3. Instruct DHS to reclassify, where warranted, FY 2001 Personnel Costs of \$138,948 to All Other Nonpersonnel Costs and FY 2002 Personnel Costs of \$182,308 and Medical Evidence Costs of \$16,150 to All Other Nonpersonnel Costs and to implement appropriate controls to prevent misclassification from occurring in the future.
4. Instruct DHS to institute internal control measures that ensure proper recording of costs on the Form SSA-4513.
5. Direct the DDD to reconcile its All Other Nonpersonnel purchases to the accounting reports maintained by DHS.

Appendix G

Agency Comments



SOCIAL SECURITY

Regional Office III
P. O. Box 8788
Philadelphia, PA 19101

October 17, 2005

Mr. Patrick P. O'Carroll, Jr.
Inspector General
Suite 300, Altmeyer Building
6401 Security Boulevard
Baltimore, Maryland 21253

Dear Mr. O'Carroll

We have reviewed the draft report entitled Administrative Costs Claimed by the District of Columbia (DC) Disability Determination Division (DDD) for Fiscal Years 2001 and 2002 (A-15-05-30018) and concur with the five recommendations requiring action.

Before we address these recommendations and provide comments on the activities underway in the Department of Human Services (DHS) to resolve these findings, we would like to give you some sense of the effort and resources expended assisting the DC DDD and its parent agencies, Department of Human Services (DHS) and Rehabilitation Services Agency (RSA), in meeting its responsibility to provide accurate and timely service to the disabled citizens of the District of Columbia **and** to properly account for the funds SSA provides to carry out these responsibilities.

We became increasingly concerned about discrepancies and reporting irregularities on SSA financial reports submitted by the DC DHS during the latter part of FY 2003. Several visits and written communications to the DDD and RSA, by my staff attempting to resolve these reporting irregularities were unsuccessful.

On July 16, 2003 we requested that the SSA OIG Office of Audit conduct another audit of costs claimed by the DC DDD (A previous audit for Fiscal Years 1996 and 1997 resulted in repayments and sustained financial adjustments of \$273,005.00).

Field work on the most recent audit began in early FY 2004, and on August 13, 2004 the SSA OIG issued the first of two audit reports. A step your office deemed necessary in order to begin immediate corrective action on what were determined to be systemic problems in the DC DDD's accounting environment. Recommendations from the first draft audit report included:

- *Work with the DC-DHS to ensure that accounting staff is properly trained to account for SSA funds as required.*
- *Ensure DC-DHS implements systems modifications and controls over its accounting process to validate the accuracy of costs claimed.*
- *Increase SSA oversight of the DC-DHS accounting process to detect and correct accounting errors relating to the DC-DDD operations.*
- *Instruct DC-DHS to reimburse SSA \$13,683 for non-DC-DDD costs (shoes, clothing, etc.) charged.*
- *Instruct DC-DHS to maintain appropriate documentation, so that it is readily available for audit examination.*

Regional office staff conducted training sessions as well as held several meetings with the Director of the DDD and the Administrator of RSA to provide guidance and suggestions for corrective action.

On June 17, 2005, the second draft audit report was issued. Recommendations for this part of the audit include:

- *Instruct DHS to refund to SSA \$106,102 for the unallowable costs.*
- *Work with DHS to determine the validity of net unsupported costs of \$376,416 and \$1,086,604 for FY 2001 and 2002, respectively, and require DHS to refund any disbursements claimed for which support can not be provided.*
- *Instruct DHS to reclassify, where warranted, FY 2001 Personnel Costs of \$138,948 to All Other Nonpersonnel Costs and FY 2002 Personnel Costs of \$182,308 and Medical Evidence Costs of \$16,150 to All Other Nonpersonnel Costs and to implement appropriate controls to prevent misclassification from occurring in the future.*
- *Instruct DHS to institute internal control measures that ensure proper recording of costs on the Form SSA-4513.*
- *Instruct the DDD to reconcile its All Other Nonpersonnel purchases to the accounting reports maintained by DHS.*

On July 12, 2005, my staff met with members of the DC Government to review this latest set of audit findings. At that meeting, we provided guidance and proposed action to resolve every recommendation contained in the second draft audit. Confident that we had satisfactorily addressed the audit findings at that meeting, we worked with the District and the SSA OIG to extend the due date of the written response to August 31, 2005.

On September 28, 2005, we received the Department of Human Services' (DHS) comments on the recommendations shown in the second draft audit report. We have reviewed the comments provided by DHS and have incorporated them in our comments below. The comments provided by DHS are shown directly below the finding; our regional comments and expected action are italicized.

1. Instruct DHS to refund to SSA \$106,102 for the unallowable costs.

The District of Columbia Department of Human Services (DHS) has agreed to refund the unallowable costs of \$106,102 within 45 days.

We will instruct DHS to forward the funds to the SSA Division of Finance by November 14, 2005.

2. Work with DHS to determine the validity of net unsupported costs of \$376,416 and \$1,086,604 for FY 2001 and 2002, respectively, and require DHS to refund any disbursements claimed for which support cannot be provided.

The audit determined the net unsupported costs for FYs 2001 and 2002 to be \$1,463,020.00. DHS provided comments using the specific categories these unsupported costs were found in. We adopted this format so as to clearly indicate our comments and expected actions as they relate to these specific categories.

All Other Nonpersonnel Costs:

- **Construction- Unsupported costs - \$257,750**

The draft report indicates \$395,408 in unsupported costs associated with construction. \$137,658 was expended and the balance \$257,750 is reflected as an unliquidated obligation that has not been drawn in reimbursement. The Department of Human Services (DHS) has requested a copy of the contract with the construction company, as well as copies of relevant invoices to support costs incurred.

During our meeting of 07/12/05, we informed the participants that this documentation must be provided in order to resolve this issue. We suggested that they inform the Office of Property Management of the costs DHS would incur if this documentation is not provided. If copies of these documents are not provided by November 14, 2005, we will instruct DHS to de-obligate SSA \$257,750.00 in unliquidated construction costs.

- **Telephone – Unsupported costs - \$37,937 and \$52,939 for FYs 2001 and 2002 respectively**

DHS requested supporting documentation from the District's Office of the Chief Technology Officer (OCTO) for telephone charges.

During our meeting of 07/12/05, we informed the participants that this documentation must be provided in order to resolve this issue. We suggested that they inform the Office of the Chief Technology Officer (OCTO) of the costs DHS would incur if this documentation is not provided. If copies of these documents are not provided by November 14, 2005, we will instruct DHS to reimburse SSA \$90,876.00 in unsupported telephone costs.

- **Dictation, Courier, Temporary Staff, Office Supplies, Travel and Postage**
- Unsupported costs - \$116,585 and \$59,651 for FYs 2001 and 2002 respectively

DHS will attempt to locate supporting documents for dictation, courier, temporary staff, office supplies, travel and postage and submit copies within 45 days.

If copies of these documents are not provided by November 14, 2005, we will instruct DHS to reimburse SSA \$176,236.00 in unsupported costs for dictation, courier, temporary staff, office supplies, travel and postage.

- **Medical Consultant Costs- Unsupported costs \$30,885 and \$258,631 for FYs 2001 and 2002, respectively**

The District of Columbia Disability Determination Division (DC DDD) has hired two accountant temporary employees to reconcile medical consultant costs shown on the SOAR system with invoices received by the DDD for FYs 2001 and 2002. DHS expects reconciliation of these payments to be completed by the end of November.

As DHS expects to complete the reconciliation by November 30, 2005, we will instruct DHS to provide the supporting documentation by December 15, 2005. If the documentation is not provided or if the documentation provided does not support all of the costs in question, DHS will also be instructed to reimburse SSA for all or any costs for which documentation cannot be provided.

- **Medical Evidence Costs- Cost Variances of \$228,912 and \$434,152 for FYs 2001 and 2002, respectively**

The District of Columbia Disability Determination Division (DC DDD) has hired two accountant temporary employees to reconcile medical evidence costs charged on the SSA-4513 report to data contained in the DDD's AS400 system. It is anticipated that this reconciliation will be completed no later than November 2005

Policies and procedures have been implemented to ensure that future costs are charged to the correct fiscal period. Movement of these charges will only occur when the appropriate supporting documentation is presented.

Again, as DHS expects to complete the reconciliation by November 30, 2005, we will instruct DHS to provide the supporting documentation by December 15, 2005. If the documentation is not provided or if the documentation

provided does not support all of the costs in question, DHS will be instructed to reimburse SSA for all or any costs for which documentation cannot be provided.

We are pleased to see that appropriate policies and procedures have been implemented to ensure that costs are charged to the correct fiscal year. We will continue to monitor this effort as a part of staff visits to the DDD.

- 3. Instruct DHS to reclassify, where warranted, FY 2001 Personnel Costs of \$138,948 to All Other Nonpersonnel Costs and FY 2002 Personnel Costs of \$182,308 and Medical Evidence Costs of \$16,150 to All Other Nonpersonnel Costs and to implement appropriate controls to prevent misclassification from occurring in the future.**

DHS will make the necessary reclassifications as shown above to the correct fiscal years. In addition, DHS has modified accounting procedures so that each category is appropriately identified and accounted for separately to preclude classification errors from occurring in the future. DHS will submit revised SSA-4513 reports reflecting these changes for FYs 2001 and 2002.

As DHS expects to have all of the reconciliation actions completed by the end of November, we will instruct DHS to provide the revised SSA-4513s by December 15, 2005.

- 4. Instruct DHS to institute internal control measures that ensure proper recording of costs on the Form SSA-4513.**

DHS has reviewed their policies and procedures concerning the accounting process, both at the DDD and DHS, in an effort to identify ways to strengthen controls and has implemented modifications to their accounting procedures ensuring that costs are properly supported and appropriately classified to the correct fiscal period.

In August 2005, we provided training for employees involved in the accounting process in the DC Department of Human Services (DHS), the Rehabilitative Services Administration (RSA) and the Disability Determinations Division (DDD). This training along with the modification made to the accounting process should yield better prepared fiscal documents. We will continue to review information provided on the SSA- 4513 to ensure that the training effort was successful. If necessary we will conduct future training in areas where we identify deficiencies.

- 5. Instruct the DDD to reconcile its All Other Nonpersonnel purchases to the accounting reports maintained by DHS.**

DHS has directed the DDD to reconcile All Other Nonpersonnel purchases to accounting reports maintained by DHS in an effort to identify costs not recorded as

DDD expenses. DHS expects this reconciliation to be completed by November 25, 2005 and revised SSA-4513s will be submitted to properly report all expenses incurred by the DDD.

As DHS expects to have all of the reconciliation actions completed by the end of November, we will instruct DHS to provide the revised SSA-4513s by December 15, 2005.

In closing, I appreciate your assistance in conducting the audits we requested and remain concerned about the delays in receiving appropriate documentation and action from the District. SSA provides over 6 million dollars per year to the DDD to ensure that timely and accurate disability decisions are provided to the disabled citizens of the District of Columbia. We consider failure to properly account for these funds, a serious matter and will instruct DHS to return funds not accounted for by the deadlines noted.

If you have questions or would like to discuss this response further, you may contact me at (215) 597-5157. If members of your staff have questions or need additional information, they may contact Elaine Garrison-Daniels, Center for Disability Programs, via email or at (215) 597-2189.

Sincerely,

/s/

Laurie Watkins
Regional Commissioner

cc:

Yvonne D. Gilchrist, Director Department of Human Services
Elizabeth B. Parker, Administrator Rehabilitation Services Administration
Dr. Adeniyi Ibikunle, Chief Disability Determination Division

Appendix H

District of Columbia Department of Human Services Comments

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF HUMAN SERVICES



Office of the Director

SEP 27 2005

Laurie Watkins, Regional Commissioner
Social Security Administration
Regional Office III
P.O. Box 8788
Philadelphia, PA 19101

Dear Ms. Watkins,

The District of Columbia Department of Human Services (DHS) herein provides a response to recommendations contained in Appendix F of the draft report concerning the Social Security Administration (SSA) Office of Inspector General's (OIG) Audit of Administrative Costs claimed by the District's Disability Determination Division (DDD) for fiscal years 2001 and 2002.

Thank you for the opportunity to provide comments concerning the validity of the facts and reasonableness of the recommendations presented in the report, and for your continued support of the DC-DDD and its efforts in the District of Columbia.

If you have any questions, please contact Elizabeth Parker, Administrator of the Rehabilitation Services Administration, at (202) 442-8663.

Sincerely,

Yvonne D. Gilchrist
Director

Enclosures

cc: Elizabeth Parker, Administrator, RSA
 Adeniyi Ibikunle, Chief, DDD
 Deloras Shepherd, Associate CFO
 Patrick O'Carroll, Inspector General, SSA

P.O. Box 54047, 64 New York Avenue, N.E., Sixth Floor, Washington, D.C. 20002 (202) 671-4200 Fax (202) 671-4326

**DISTRICT OF COLUMBIA
DEPARTMENT OF HUMAN SERVICES
DISABILITY DETERMINATION DIVISION**

**RESPONSE TO RECOMMENDATIONS
RELATIVE TO SSA OIG AUDIT OF ADMINISTRATIVE COSTS
FOR FISCAL YEARS 2001 AND 2002**

- 1) Instruct the District of Columbia Department of Human Services (DHS) to refund to the Social Security Administration (SSA) \$106,102 for unallowable costs.**

Within 45 days, a check made payable to SSA for \$106,102 will be issued in repayment of the disallowed costs.

- 2) Work with DHS to determine the validity of net unsupported costs of \$376,416 and \$1,086,604 for FY 2001 and 2002, respectively, and require DHS to refund any disbursements claimed for which support can not be provided.**

All Other Nonpersonnel Costs

Construction – The draft report indicates \$395,408 in unsupported costs associated with construction. \$137,658 was expended and the balance, \$257,750, is reflected as an unliquidated obligation that has not been drawn in reimbursement. The RSA Administrator has requested a copy of the contract with the construction company, as well as copies of relevant invoices to support costs incurred. Copies of those documents will be provided to SSA as soon as they are received.

Telephone – The draft report indicates \$37,937 and \$52,939 in unsupported telephone charges for FYs 2001 and 2002, respectively. DHS requested supporting documentation from the District's Office of the Chief Technology Officer (OCTO), the office responsible for procuring and managing telecommunication services in the District. We have been unsuccessful thus far in getting the information we need. However, in a meeting with OCTO representatives on September 22, 2005, DHS staff expressed the need for supporting documentation to preclude disallowance. OCTO officials requested that we resubmit our request and committed to addressing our needs. We will forward information received from OCTO upon receipt.

Dictation, courier, temporary staff, office supplies, travel and postage – According to the draft report, a total of \$78,648 and \$6,712 for FYs 2001 and 2002, respectively, are unsupported. We will make a final attempt to locate these documents and submit copies within 45 days.

Incorrect FY Recording and Reporting – According to the draft report, \$61,804 was classified as FY 2001 costs, when in fact these costs were incurred in FYs 2000 and 2002.

Correspondingly, FY 2002 costs are understated by \$61,238 because those costs were moved to FY 2001. Within the next 60 days, we will develop and submit written policies and procedures to ensure that obligations are charged to the correct fiscal year. Any restatement would be a paper exercise only because we cannot modify the District's accounting records for prior periods. In addition, SSA audited 4513 reports for FY 2000 without requiring restatement.

Personnel Costs

Unsupported costs – According to the draft report, DHS understated medical consultant costs in FY 2001 by \$30,885 and overstated medical consultant costs in FY 2002 by \$258,631. DDD has hired two temporary accounting clerks to reconcile payments from the SOAR system with invoices received by the DDD for FYs 2001 and 2002. We anticipate this effort will be completed no later than the end of November 2005. Once complete, we will be able to reconcile invoices with amounts reported.

Medical Evidence Costs

According to the draft report, the auditors identified a variance of \$228,912 and \$434,152 for FY 2001 and 2002, respectively, when comparing Medical Evidence costs reported on the SSA-4513 reports to data contained in the DDD's AS400 system. The variances are the result of journal entries that moved charges among fiscal years. Because carryover budgets were not established in a timely manner, prior year invoices were charged to a current year's award. Once the prior year budget was established, amounts were moved to satisfy unliquidated obligations. This treatment has occurred in all prior years and has been accepted by previous SSA auditors. We have implemented policies and procedures going forward to ensure that costs are charged to the correct fiscal period. Movement of charges will only occur when appropriate supporting documentation is presented.

DHS reconciled payments reflected in the SOAR accounting system to data in the DDD's AS400 system for fiscal years 2001 and 2002. Our reconciliations were provided to the auditor via email on October 22, 2004. In a subsequent email on November 16, 2004, the auditor concurred that the issue is not that these costs are unallowable, but unsupported because DHS could not provide an explanation for the reclassification of these costs among fiscal years. A copy of the correspondence is enclosed. DDD has hired two temporary accounting clerks to reconcile payments from the SOAR system with obligations from the AS400 database for FYs 2001 and 2002 in an effort to validate that the systems are functioning properly. It is anticipated that this project will be completed no later than November 2005.

During a site visit by representatives from the SSA Regional Office on March 22-24, 2005, the issue of reclassifying costs from one year to another was discussed in detail. Because the net affect on all prior years is zero, regional representatives did not express a need for us to restate all prior year reports, however, stressed the importance of proper accounting procedures going forward.

- 3) *Instruct DHS to reclassify, where warranted, FY 2001 Personnel Costs of \$138,948 to All Other Nonpersonnel Costs and FY 2002 Personnel Costs of \$182,308 and Medical Evidence Costs of \$16,150 to All Other Nonpersonnel Costs and to implement appropriate controls to prevent misclassification from occurring in the future.***

DHS will reclassify FY 2001 personnel costs of \$138,948 to All Other Nonpersonnel Costs and FY 2002 Personnel Costs of \$182,308 and Medical Evidence Costs of \$16,150 to All Other Nonpersonnel Costs. However, any restatement would be a paper exercise only because we cannot modify the District's accounting records for prior periods. After the reconciliations by DDD described in items 3 and 5 is complete, DHS will submit revised SSA-4513 reports where necessary.

In addition, DHS has modified controls to prevent misclassification of costs going forward. Accounting procedures have been modified so that each cost category is appropriately identified and accounted for separately to preclude classification errors. DHS and DDD staff will work together to monitor outcomes to ensure that controls are functioning properly.

- 4) *Instruct DHS to institute internal control measures that ensure proper recording of costs on the Form SSA-4513.***

DHS has reviewed policies and procedures concerning the accounting process, both at DDD and DHS, in an effort to identify ways to strengthen controls. We have performed a review of expenditures and have modified the accounting process to ensure that costs are appropriately classified. Supporting documentation is now required for all adjustments and reclassifications of costs. Revised Financial Status Reports (SSA Form 4513) for fiscal years 2003 and 2004 reflect changes to expense classifications based on these efforts.

In addition, SSA has provided technical assistance and guidance to DHS concerning federal reporting, which DHS has utilized in establishing written policies and procedures concerning the completion of the SSA-4513 report. Those policies and procedures were provided to representative from the Regional Office during a site visit on March 22-24, 2005. A copy is enclosed for your reference.

- 5) *Direct the DDD to reconcile its All Other Nonpersonnel purchases to the accounting reports maintained by DHS.***

The DDD has been directed to reconcile All Other Nonpersonnel purchases to accounting reports maintained by DHS in an effort to identify costs not recorded as DDD expenses. Within 60 days, DDD staff shall compare vendor files with DHS accounting records. Revised SSA-4513 reports will be submitted where necessary to properly report all expenses incurred by the DDD. Any restatement would be a paper exercise only because we cannot modify the District's accounting records for prior periods.

Appendix I

OIG Contacts and Staff Acknowledgments

OIG Contacts

Vicki Vetter, Director, Financial Audit Division (410) 966-9081

Lance Chilcoat, Audit Manager, (410) 965-9743

Acknowledgments

In addition to those named above:

Steven Sachs, Auditor-in-Charge

Sigmund Wisowaty, Senior Auditor

Ronald Anderson, Auditor

Brennan Kraje, Statistician

Annette DeRito, Writer/Editor

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