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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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

**October 2011      A-01-11-1109**

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**AUDIT REPORT**

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## Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, 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

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



## SOCIAL SECURITY

### **MEMORANDUM**

Date: October 12, 2011 Refer To:

To: Susan Harding  
Regional Commissioner  
Boston

From: Inspector General

Subject: Administrative Costs Claimed by the Maine Disability Determination Services  
(A-01-11-11109)

For our audit of Federal Fiscal Year (FY) 2008 and 2009 administrative costs claimed by the Maine Disability Determination Services (ME-DDS), our objectives were to

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

### **BACKGROUND**

Disability determination services (DDS) in each State or other responsible jurisdiction perform disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs according to Federal law and regulations.<sup>1</sup> Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.

To make proper disability determinations, SSA authorizes each DDS to purchase medical examinations, x rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources. SSA reimburses the DDS for 100 percent of allowable reported expenditures up to its approved funding authorization, based on a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513). (See Appendix B for additional background, scope, and methodology.)

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<sup>1</sup> Social Security Act §§ 221 and 1614, 42 U.S.C. §§ 421 and 1382c; 20 C.F.R. §§ 404.1601, et. seq., and 416.1001, et. seq.

## RESULTS OF REVIEW

Except for the items discussed in the following sections, we determined that costs claimed by the ME-DDS for the period October 1, 2007 through September 30, 2009 were allowable and properly allocated, and the system of internal controls over the accounting and reporting of administrative costs was effective. In addition, cumulative draw downs did not exceed cumulative disbursements during our audit period. Finally, our limited review of ME-DDS' controls over its physical security and personally identifiable information showed that controls were in place. (See Appendix C for costs reported on Forms SSA-4513.)

### INDIRECT COSTS – INFORMATION TECHNOLOGY

ME-DDS claimed unallowable information technology (IT) costs of \$5,857 for FYs 2008 through 2009. SSA incurred these unallowable costs because Maine's Department of Administrative and Financial Services (ME-DAFS) billed ME-DDS for IT staff services it did not provide.<sup>2</sup>

Before our audit, SSA's regional office expressed concerns about the IT charges from ME-DAFS. Therefore, we reviewed the Memorandum of Understanding (MoU) between the State of Maine, ME-DDS, and SSA detailing the terms and conditions by which ME-DAFS provides IT services to ME-DDS.

We found that ME-DAFS did not provide ME-DDS or SSA detailed IT billings, as required by the MoU. Despite this, SSA reimbursed ME-DDS for these charges. As a result, ME-DDS claimed unallowable IT costs in FYs 2008 through 2009, as shown in Table 1. ME-DDS indicated that it had previously attempted to obtain support for these charges, yet it was unable to resolve the matter.

Table 1: ME-DDS Unallowable IT Costs	
FY	Unallowable IT Costs Claimed
2008	\$5,585
2009	\$272
<b>TOTAL</b>	<b>\$5,857</b>

ME-DAFS was planning to post an adjusting entry to correct these erroneous charges.

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<sup>2</sup> In March 2006, ME-DDS IT staff became part of ME-DAFS, which provides IT services for State agencies. These services include operating computer network systems and delivering IT services support.

## EQUIPMENT INVENTORY CONTROLS

ME-DDS did not maintain an inventory of equipment, as required by SSA.<sup>3</sup> According to SSA instructions, the equipment inventory listing must include the following

1. Description
2. Source of funds used to purchase (State or Federal)
3. Unit cost (State purchases only)
4. Inventory or serial number
5. Date purchased
6. Physical location, including building address and room or floor location

ME-DDS completed an inventory while we were conducting our audit; however, the inventory records did not contain all the elements required by SSA policy.

## SECURITY PLAN COMPLETENESS

ME-DDS' Security Plan did not contain all the information required by SSA policy.<sup>4</sup> Specifically, ME-DDS' Security Plan was missing sections for the following.

1. Physical DDS Security Description/Profile
2. Systems Security Awareness and Training Plan
3. Systems Review/Recertification Plan
4. Violations Reports and Resolution Plan

In addition, ME-DDS did not annually review its Security Plan as required. ME-DDS informed us that the person primarily responsible for maintaining the Security Plan had been out of the office for an indefinite amount of time.

## CONCLUSION AND RECOMMENDATIONS

Overall, ME-DDS had effective internal controls over the accounting and reporting of administrative costs for FYs 2008 and 2009. Also, the controls in place for general security and personally identifiable information at ME-DDS were satisfactory.

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<sup>3</sup> SSA, POMS, DI 39530.020 (October 1, 2002).

<sup>4</sup> SSA, POMS, DI 39567.160 (November 8, 2010).

However, based on the issues with indirect costs, inventory, and the security plan, we recommend that SSA instruct ME-DDS to:

1. Follow up with ME-DAFS to ensure it processes the \$5,857 correction entry for erroneous indirect IT charges and returns these funds to SSA.
2. Work with ME-DAFS to implement procedures to provide documentation for indirect IT charges on an ongoing basis, as required by the MoU.
3. Maintain an updated equipment inventory in accordance with SSA requirements.
4. Maintain a Security Plan in accordance with SSA requirements.

### **AGENCY COMMENTS**

SSA agreed with the recommendations. (See Appendix D for SSA's comments.)

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr."

Patrick P. O'Carroll, Jr.

# *Appendices*

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[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Background, Scope, and Methodology

[APPENDIX C](#) – Schedule of Total Costs Reported on Forms SSA-4513—State Agency Reports of Obligations for SSA Disability Programs

[APPENDIX D](#) – Agency Comments

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

## **Appendix A**

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### **Acronyms**

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
Form SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
IT	Information Technology
ME-DAFS	Maine Department of Administrative and Financial Services
ME-DDS	Maine Disability Determination Services
MoU	Memorandum of Understanding
OMB	Office of Management and Budget
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code

# Background, Scope, and Methodology

## **BACKGROUND**

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act), provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program, established under Title XVI of the Act, provides benefits to financially needy individuals who are aged, blind, 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 the DI and SSI programs are performed by disability determination services (DDS) in each State, Puerto Rico, and the District of Columbia. Such determinations are required to be performed in accordance with Federal law and underlying regulation.<sup>1</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, SSA authorizes each DDS to purchase medical examinations, x rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

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

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<sup>1</sup> *Social Security Act* §§ 221 and 1614, 42 U.S.C. §§ 421 and 1382c; 20 C.F.R. §§ 404.1601 et. seq. and 416.1001 et. seq.

<sup>2</sup> 31 C.F.R. § 205.

<sup>3</sup> *Cash Management Improvement Act of 1990*, Pub. L. No. 101-453, 104 Stat. 1058 (1990).

## **SCOPE**

To accomplish our objectives, we reviewed the administrative costs Maine Disability Determination Services (ME-DDS) reported on its Forms SSA-4513 for FYs 2008 and 2009. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions and determine whether they were allowable under OMB Circular A-87 and appropriate, as defined by SSA's Program Operations Manual System.

We also:

- Reviewed applicable Federal laws, regulations, and pertinent parts of SSA's Program Operations Manual System and other instructions pertaining to administrative costs incurred by ME-DDS and draw down of SSA funds.
- Interviewed staff at ME-DDS and SSA's Boston Regional Office.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Verified the reconciliation of official State accounting records to the administrative costs reported by ME-DDS on Forms SSA-4513 for FYs 2008 and 2009.
- Examined the administrative expenditures (Personnel, Medical, and All Other Non-personnel costs) incurred and claimed by ME-DDS for FYs 2008 and 2009 on Forms SSA-4513.
- Examined the indirect costs claimed by ME-DDS for FYs 2008 and 2009 and the corresponding Indirect Cost Rate Agreements.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Reviewed the State of Maine Single Audit reports issued in 2008 and 2009.
- Conducted limited general control testing—which encompassed reviewing the physical access security within the DDS.
- Reviewed policies and procedures related to personally identifiable information to determine whether the DDS had controls in place to protect these data.

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

We performed our audit at the ME-DDS in Winthrop, Maine, and the Office of Audit in Boston, Massachusetts, from January through May 2011. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **METHODOLOGY**

Our sampling methodology encompassed the three general areas of costs as reported on Forms SSA-4513: (1) Personnel, (2) Medical, (3) All Other Non-personnel costs. We obtained computerized data from ME-DDS for FYs 2008 and 2009 for use in statistical sampling.

### **Personnel Costs**

We sampled 60 employee salary items from 1 randomly selected pay period in FY 2009. We tested regular and overtime payroll and hours for each individual selected. We verified that approved time records were maintained and supported the hours worked. We tested payroll records to ensure the ME-DDS correctly paid employees and adequately documented these payments.

We also sampled 50 medical consultant costs from FY 2009. We determined whether sampled costs were reimbursed properly and ensured the selected medical consultants were licensed.

### **Medical Costs**

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

### **All Other Non-Personnel Costs**

We stratified all other non-personnel costs into eight categories: (1) Occupancy, (2) Contracted Costs, (3) New Electronic Data Processing Equipment/Upgrades, (4) Communications, (5) Applicant Travel, (6) DDS Travel, (7) Supplies, and (8) Miscellaneous. We selected a stratified random sample of 50 items from each FY based on the percentage of costs in each category (excluding the rent portion of Occupancy) to total costs. We also performed a 100-percent review of the rent portion of Occupancy expenditures.

## **Appendix C**

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

#### **Maine Disability Determination Services**

<b>FISCAL YEARS (FY) 2008 and 2009 COMBINED</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	\$9,345,424	\$0	\$9,345,424
Medical	\$3,978,069	\$0	\$3,978,069
Indirect	\$1,211,131	\$0	\$1,211,131
All Other	\$1,760,336	\$0	\$1,760,336
<b>TOTAL</b>	<b>\$16,294,960</b>	<b>\$0</b>	<b>\$16,294,960</b>

  

<b>FY 2008</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	\$4,523,726	\$0	\$4,523,726
Medical	\$1,766,986	\$0	\$1,766,986
Indirect	\$701,764	\$0	\$701,764
All Other	\$853,177	\$0	\$853,177
<b>TOTAL</b>	<b>\$7,845,653</b>	<b>\$0</b>	<b>\$7,845,653</b>

  

<b>FY 2009</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	\$4,821,698	\$0	\$4,821,698
Medical	\$2,211,083	\$0	\$2,211,083
Indirect	\$509,367	\$0	\$509,367
All Other	\$907,159	\$0	\$907,159
<b>TOTAL</b>	<b>\$8,449,307</b>	<b>\$0</b>	<b>\$8,449,307</b>

## ***Appendix D***

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### **Agency Comments**



## MEMORANDUM

Date: August 5, 2011

Refer To:  
S2D1G5/33525/ORC-  
2010-S1J-3

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

From: Susan Harding  
Regional Commissioner  
Boston

Subject: Administrative Costs Claimed by the Maine Disability Determination Services  
(A-01-11-11109)

Thank you for the opportunity to review and comment on the draft audit report of administrative costs claimed by the Maine Disability Determination Services for fiscal years 2008 and 2009.

We concur with the facts presented by the report and the findings that:

- The Maine Department of Administrative and Financial Services (DAFS) charged the DDS with \$5857 of unallowable costs for 2008 and 2009.
- DAFS did not provide the DDS with detailed IT bills as stated in their MOU.
- The DDS did not maintain a complete inventory of equipment required by SSA policy.
- The DDS Security Plan did not contain all of the information required by SSA policy.
- The DDS did not review its Security Plan annually as required.

We will confirm corrective action upon receipt of the final audit report. Please call me if you wish to discuss the report or you staff may contact Lynne Curtis, Maine Disability Program Administrator, Boston Center for Disability, at 617-565-2390.

## ***Appendix E***

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# OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Judith Oliveira, Director, Boston Audit Division

David Mazzola, Audit Manager

### ***Acknowledgments***

In addition to those named above:

Chad Burns, Senior Auditor

Katie Toli, Auditor

For additional copies of this report, please visit our Website at <http://oig.ssa.gov/> or contact the Office of the Inspector General's Public Affairs Staff Assistant at (410) 965-4518. Refer to Common Identification Number A-01-11-11109.

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The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

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OA conducts financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

### **Office of Investigations**

OI conducts investigations related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

### **Office of the Counsel to the Inspector General**

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Also, OCIG administers the Civil Monetary Penalty program.

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