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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  
NEW HAMPSHIRE DISABILITY  
DETERMINATION SERVICES**

May 2005

A-01-05-15012

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**AUDIT REPORT**

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## **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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- 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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## SOCIAL SECURITY

### MEMORANDUM

Date: May 27, 2005

Refer To:

To: Manuel J. Vaz  
Regional Commissioner  
Boston

From: Inspector General

Subject: Administrative Costs Claimed by the New Hampshire Disability Determination Services (A-01-05-15012)

For our audit of the Fiscal Year (FY) 2001, 2002 and 2003 administrative costs claimed by the New Hampshire Disability Determination Services (NH-DDS), our objectives were to:

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

### BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction, according to Federal regulations.<sup>1</sup> Each DDS is responsible for determining claimants' disabilities and assuring that adequate evidence is available to support its determinations. To make proper disability determinations, each State agency is authorized to purchase consultative medical examinations and medical evidence of record from the claimants' physicians or other treating sources. SSA pays the State agency for 100 percent of allowable expenditures using Form SSA-4513. (For additional background information, see Appendix B of this report.)

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<sup>1</sup> 20 C.F.R. §§ 404.1601 *et. seq.* and 416.1001 *et. seq.*

## RESULTS OF REVIEW

Except for the contract cost issue discussed below, we determined that costs claimed on Forms SSA-4513 for the period October 1, 2000 through September 30, 2003 were allowable and properly allocated, and the system of internal controls was effective. Also, the aggregate of the SSA funds drawn down agreed with total expenditures as reported by NH-DDS for disability determinations in FYs 2001 through 2003. (See Appendix C for costs reported on Forms SSA-4513.)

### CONTRACT COSTS

The NH-DDS claimed unallowable contract costs of \$28,654 for FYs 2001 through 2003. These unallowable costs were incurred because contractors for medical transcription services billed at rates higher than the agreed upon contract rate. Specifically, for two contracts:

- One transcription service billed the DDS at a rate of \$0.155 per line of transcription (which was the rate in the prior contract). However, the current contract called for a rate of \$0.135 per line of transcription. The different rate caused \$25,986 to be charged improperly.
- One transcription service billed the DDS at a rate of \$0.118 per line of transcription (which was the rate in a prior contract bid). However, the current contract called for a rate of \$0.100 per line of transcription. The different rate caused \$2,668 to be charged improperly.

The DDS reviewed, approved and paid the bills for the transcription services without verifying the billed rate to the contract. As a result, the NH-DDS claimed unallowable contractor costs in FYs 2001 through 2003 as shown in the table below.

<b>Fiscal Year</b>	<b>Unallowable Costs Claimed</b>
2001	\$2,802
2002	\$12,928
2003	\$12,924
<b>Total</b>	<b>\$28,654</b>

## **CONCLUSIONS AND RECOMMENDATION**

Generally, NH-DDS had effective internal controls over the accounting and reporting of administrative costs. However, NH-DDS claimed unallowable contract costs of \$28,654. Therefore, in our draft report, we recommended that SSA instruct the NH-DDS to return \$28,654 for contract costs that exceeded the rate in the approved contracts.

## **AGENCY COMMENTS**

SSA and the New Hampshire Department of Education agreed with our recommendation. The DDS refunded the \$28,654 to SSA in February 2005. Additionally, a corrective action plan has been implemented to ensure the DDS verifies the terms of contracts before invoices are approved for payment. (See Appendices D and E for the full text of the comments from SSA and the New Hampshire Department of Education, respectively.)



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

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## Acronyms

Act	Social Security Act
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
EDP	Electronic Data Processing
FY	Fiscal Year
NH-DDS	New Hampshire Disability Determination Services
OMB	Office of Management and Budget
Pub. L.	Public Law
SSA	Social Security Administration
SSA-4513	State Agency Report of Obligations for SSA Disability Programs
SSI	Supplemental Security Income
Treasury	Department of Treasury
U.S.C.	United States Code

## **Background, Scope, and Methodology**

### **BACKGROUND**

The Disability Insurance (DI) program was established in 1954 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, or disabled.

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both the DI and SSI programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction, in accordance with Federal regulations.<sup>1</sup> 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 regulations<sup>2</sup> and intergovernmental agreements entered into by 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 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 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> 20 C.F.R. §§ 404.1601 *et. seq.* and 416.1001 *et. seq.*

<sup>2</sup> 31 C.F.R. Part 205.

<sup>3</sup> Pub. L. No. 101-453, 31 U.S.C. § 6503.



## SCOPE

To accomplish our objectives, we reviewed the administrative costs New Hampshire Disability Determination Services (NH-DDS) reported on its Forms SSA-4513 for FYs 2001, 2002, and 2003. 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 regulations and pertinent parts of Program Operations Manual System DI 39500, *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by NH-DDS and draw down of SSA funds covered by the Cash Management Improvement Act.
- Interviewed staff at NH-DDS and the SSA Regional Office.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Verified the reconciliation of official State accounting records to the administrative costs reported by NH-DDS on Forms SSA-4513 for FYs 2001, 2002 and 2003.
- Examined the administrative expenditures (personnel, medical service, and all other non-personnel costs) incurred and claimed by NH-DDS for FYs 2001, 2002 and 2003 on Forms SSA-4513.
- Examined the indirect costs claimed by NH-DDS for FYs 2001, 2002 and 2003 and the corresponding Cost Allocation Plans.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Reviewed the State of New Hampshire Single Audit reports issued in 2001, 2002 and 2003.
- Conducted limited general control testing—which encompassed reviewing the physical access security within the DDS.

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

We performed our audit at the NH-DDS in Concord, New Hampshire and the Office of Audit in Boston, Massachusetts from September 2004 through February 2005. We conducted our audit in accordance with generally accepted government auditing standards.

## **METHODOLOGY**

Our sampling methodology encompassed the four general areas of costs as reported on Forms SSA-4513: (1) personnel, (2) medical, (3) indirect, and (4) all other non-personnel costs. We obtained computerized data from NH-DDS for FYs 2001, 2002, and 2003 for use in statistical sampling.

### **Personnel Costs**

We sampled 39 employee salary items from 1 randomly selected pay period in FY 2003. 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 NH-DDS correctly paid employees and adequately documented these payments.

We also sampled 50 randomly selected medical consultant costs from FY 2003. We determined whether sampled costs were reimbursed properly and ensured the selected medical consultants were licensed.

### **Medical Costs**

We sampled a total of 150 medical evidence of records and consultative examination records (50 items from each FY) using a proportional random sample. We determined whether sampled costs were properly reimbursed.

### **Indirect Costs**

We reviewed the indirect cost base and computations used to determine those costs for reimbursement purposes. Our objective was to ensure SSA reimbursed NH-DDS in compliance with the State Cost Allocation Plan. We analyzed the approved rate used for each quarter, ensuring the indirect cost rate changed when the Indirect Cost Rate Agreement was modified. We reviewed the documentation and traced the base amounts to Forms SSA-4513 for the indirect cost computation components. We determined whether the approved rate used was a provisional, predetermined, or final rate.

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

We stratified all other non-personnel costs into 10 categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing (EDP) Maintenance, (4) New EDP Equipment/Upgrades, (5) Equipment Purchases and Rental, (6) Communications, (7) Applicant Travel, (8) DDS Travel, (9) Supplies, and (10) Miscellaneous. We selected a stratified random sample of 50 items from each FY based on the percentage of costs in each category (excluding Occupancy) to total costs. We also performed a 100 percent review of Occupancy expenditures.

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

### New Hampshire Disability Determination Services

#### FISCAL YEARS (FY) 2001, 2002 and 2003 COMBINED

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$7,082,740	\$29,334	\$7,112,074
Medical	\$2,417,852	\$0	\$2,417,852
Indirect	\$619,784	\$0	\$619,784
All Other	\$1,121,933	\$0	\$1,121,933
<b>TOTAL</b>	<b>\$11,242,309</b>	<b>\$29,334</b>	<b>\$11,271,643</b>

#### FY 2001

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$2,159,270	\$0	\$2,159,270
Medical	\$713,614	\$0	\$713,614
Indirect	\$165,901	\$0	\$165,901
All Other	\$360,733	\$0	\$360,733
<b>TOTAL</b>	<b>\$3,399,518</b>	<b>\$0</b>	<b>\$3,399,518</b>

#### FY 2002

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$2,407,622	\$0	\$2,407,622
Medical	\$869,022	\$0	\$869,022
Indirect	\$240,098	\$0	\$240,098
All Other	\$392,555	\$0	\$392,555
<b>TOTAL</b>	<b>\$3,909,297</b>	<b>\$0</b>	<b>\$3,909,297</b>

#### FY 2003

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$2,515,848	\$29,334	\$2,545,182
Medical	\$835,216	\$0	\$835,216
Indirect	\$213,785	\$0	\$213,785
All Other	\$368,645	\$0	\$368,645
<b>TOTAL</b>	<b>\$3,933,494</b>	<b>\$29,334</b>	<b>\$3,962,828</b>

## Agency Comments



## SOCIAL SECURITY

### MEMORANDUM

**Date:** April 26, 2005 **Refer To:** S2D1G5/DI-16  
A-2005-6677

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

**From:** Manuel J. Vaz /s/  
Regional Commissioner  
Boston

**Subject:** Administrative Costs Claimed by the New Hampshire Disability Determination Services (A-01-05-15012) (Your memo dated 3/30/05) --REPLY

We have reviewed your draft report of the administrative costs audit on the New Hampshire Disability Determination Services (NH DDS) for Fiscal Years (FYs) 2001 through 2003.

We are pleased to confirm that except for one area, the costs claimed on forms SSA-4513 for the period October 1, 2000 through September 30, 2003 were allowable and properly allocated, and the system of internal controls in the NH DDS was effective. Further, the state of NH's draw down of SSA funds agreed with the total expenditures reported by the NH DDS in FYs 2001 through 2003.

The NH DDS claimed unallowable transcription contract costs of \$28,654 for FYs 2001 through 2003 because the rate used to determine costs exceeded the agreed upon contract rate. When this was reported at the audit closing, the DDS immediately contacted the contractor and received a full refund, which was sent to SSA in February 2005. Further, SSA-4513 revisions for FYs 2001 through 2003 were completed on March 3, 2005.

We concur with this draft report and feel all audit findings have been resolved.

We thank you for the opportunity to comment on this draft report.

# New Hampshire Department of Education Comments

**From:** Bieniek, Michael [mailto:MBieniek@ed.state.nh.us]  
**Sent:** Friday, May 13, 2005 10:48 AM  
**To:** Mazzola, David  
**Subject:** Correction Action Plan

The New Hampshire Department of Education agrees with the conclusions and recommendations of the Social Security Administration, Office of the Inspector General Audit report. Since the discovery of unallowable contract costs in the amount of \$28,654, the Internal Auditor of the Department of Education has crafted and implemented a corrective action plan that addresses the root cause of the overpayments and will ensure a better internal control for processing payables for the future. NH-DDS now follows new procedures and controls.

The corrective action plan strengthens the approval of invoices for payment and the verification of dollar amounts and terms of contract before invoices are approved for payment. A procedure distinguishes invoices which will require an original signature from the administrator of NH-DDS as opposed to those which can be approved with a signature stamp.

An original signature from the Administrator of NH-DDS will be required on all invoices pertaining to contracts and encumbrances. A procedure is established to inform the administrator that the terms and dollar amounts of the invoice have been confirmed against the terms and dollar amounts of the contract and/or encumbrances. An original signature from the administrator of NH-DDS is also required on all invoices for items with an individual dollar amount of \$100.00 or more. A stamped signature for routine expenditures, such as invoices pertaining to the rental of copiers, paper supplies, toner etc., ...will be accepted provided the individual who stamped the invoice also initials and dates the invoice. All invoices are coded with Fund-Agency-Organization-Class-Object Code, CAN # (if known), the correct vendor code and the correct encumbrance and/or contract number.

Further, the NH-DDS received refunds from the two contract vendors in an amount equal to the overpayments. The Department of Education refunded the \$28,654 to SSA in February 2005.

## **OIG Contacts and Staff Acknowledgments**

### **OIG CONTACTS**

Judith Oliveira, Director, Boston Audit Division, (617) 565-1765

David Mazzola, Audit Manager, (617) 565-1807

### **ACKNOWLEDGMENTS**

In addition to those named above:

Frank Salamone, Auditor

Cheryl Robinson, Writer-Editor

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