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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  
RHODE ISLAND DISABILITY  
DETERMINATION SERVICES**

**December 2007    A-01-06-15069**

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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: December 13, 2007

Refer To:

To: Manuel J. Vaz  
Regional Commissioner  
Boston

From: Inspector General

Subject: Administrative Costs Claimed by the Rhode Island Disability Determination Services (A-01-06-15069)

For our audit of Fiscal Year (FY) 2003 and 2004 administrative costs claimed by the Rhode Island Disability Determination Services (RI-DDS), our objectives were to:

- evaluate the RI-DDS' internal controls over the accounting and reporting of administrative costs;
- determine whether costs claimed by the RI-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 DDS is authorized to purchase consultative medical examinations and medical evidence of record from the claimants' physicians or other treating sources. SSA pays the DDS for 100 percent of allowable expenditures using a *State Agency Report of Obligations for SSA Disability Programs* (SSA Form-4513). The DDS withdraws Federal funds through the Department of the Treasury's Automated Standard Application for Payments (ASAP) system to pay for program expenditures. (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

We determined that the costs claimed on SSA Form-4513 for the period October 1, 2002 through September 30, 2004 were allowable and properly allocated. However, the RI-DDS did not have effective controls regarding the reporting and accounting of administrative costs; and as a result, the DDS had about \$1.2 million in draw downs from the ASAP system that exceeded the costs reported on the SSA Form-4513 for FYs 2003 and 2004. (See Appendix C for costs reported on SSA Forms-4513.) Our limited review of the RI-DDS' security controls environment showed that controls were in place.

## CASH MANAGEMENT

RI-DDS could not provide supporting documentation for the aggregate of the SSA funds drawn down from ASAP. As a result, it appears that either (a) cash was overdrawn in FYs 2003 and 2004 and/or (b) the draw downs were appropriate but the costs claimed on the SSA Forms-4513 for these 2 years were understated—as shown in the table below.

<b>FY</b>	<b>Expenditures Claimed on SSA-4513</b>	<b>ASAP Cash Draws</b>	<b>ASAP Draws Exceed Expenditures on SSA-4513</b>
2003	\$6,502,956	\$6,531,860	\$28,904
2004	\$6,421,512	\$7,611,772	\$1,190,260
<b>Totals</b>			<b>\$1,219,164</b>

Initially, during our review, RI-DDS' cash draws appeared to be overdrawn by \$1.2 million in FYs 2003 and 2004. Then, in May 2007, we spoke to an official from the State of Rhode Island, whose department is responsible for handling the RI-DDS cash draw downs. When we asked about the apparent overdrafts, the official informed us he did not believe cash was overdrawn. He informed us that he believed RI-DDS did not report all allowable costs on its SSA Forms-4513 and that a comparison of (a) the detailed files containing the costs used to draw down cash from ASAP to (b) the costs the RI-DDS included on its SSA Forms-4513 would show allowable costs that were missing on the SSA Forms-4513.

RI-DDS provided us with supporting documentation for costs totaling \$338,038 which were not reported on the SSA-4513. Based on our own analysis, we determined the \$338,038 were allowable costs for FY 2004.<sup>2</sup> If the RI-DDS included these allowable costs on the SSA Form-4513, the overdraft for FY 2004 would total \$852,222 (instead of the \$1,190,260) and the 2-year overdraft would decrease to \$881,126 (from

<sup>2</sup> For example, \$308,344 of the \$338,038 related to personnel costs for the month of August 2004; and these allowable costs were inadvertently excluded from the SSA Form-4513 for FY 2004.

\$1,219,163). The RI-DDS could not provide supporting documentation for the remaining \$852,222 in ASAP draw downs in FY 2004 or \$28,904 in FY 2003. Therefore, we could not determine if the \$881,126 ASAP draw down was appropriate.

Furthermore, although our review only focused on the costs for FYs 2003 and 2004, SSA Regional Office staff informed us that the RI-DDS appeared to also have overdrafts on the ASAP system for FY 2002 in the amount of \$84,335 and for FY 2005 in the amount of \$785,600. Specifically, records showed:

- For FY 2002, RI-DDS claimed \$6,597,149 on the SSA Form-4513 but the ASAP cash draw was for \$6,681,484.
- For FY 2005, RI-DDS claimed \$6,449,978 on the SSA Form-4513 but the ASAP cash draw was for \$7,235,578.

To fully address the discrepancies between the costs claimed on the SSA Forms-4513 and the cash drawn from the ASAP system for FYs 2002 through 2005, RI-DDS needs to reconcile its data from FY 2002 to the present to determine if the ASAP system was overdrawn and/or if the costs recorded on the SSA Forms-4513 were understated. As mentioned earlier, we attempted to reconcile the costs for FYs 2003 and 2004, but we were unable to do so based on the documentation provided by the DDS.<sup>3</sup>

## **CONCLUSION AND RECOMMENDATION**

We determined that the costs claimed on SSA Forms-4513 for the period October 1, 2002 through September 30, 2004 were allowable and properly allocated. However, the RI-DDS did not have effective controls regarding the reporting and accounting of administrative costs. Therefore, we recommend SSA instruct the RI-DDS to reconcile the SSA Form-4513 for FYs 2002 through the present and compare the SSA Form-4513 costs to the amounts drawn down. Further, if the DDS can not support the costs drawn down through the ASAP system, SSA should request that the RI-DDS return the excess funds. If, on the other hand, the reconciliation shows that the DDS did not include all costs on the SSA Form-4513, SSA should instruct the DDS to amend the SSA Form-4513 as appropriate.

## **AGENCY COMMENTS**

SSA agreed with the recommendation. (See Appendix D.)

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<sup>3</sup> We initially requested data for the RI-DDS' costs for FYs 2003 and 2004 in February 2005. It was not until February 2007 (2 years later) that the DDS provided us sufficient information for us to start our review.

## OTHER MATTERS

In September 2005 the Office of the Inspector General (OIG) issued a report titled *Disability Determination Services' Use of Social Security Numbers on Third-Party Correspondence* (A-04-05-15098). In this report the OIG recommended SSA:

Clarify existing policy to define what third parties may be provided a claimant's Social Security Number (SSN) as a part of the DDS's disability determination process. To ensure SSN integrity, we believe the SSN should only be disclosed when it is critical to a third party's ability to adequately respond to the DDS's information request.

SSA agreed with this recommendation and stated:

A claimant's SSN should only be disclosed when it is critical to a third party's ability to adequately respond to a DDS's information request. We will review and, to the extent necessary, clarify our existing policy to more clearly define which third parties should be provided a claimant's full or partial SSN as part of the DDS evidence collection process.

We asked RI-DDS its current and past practices related to including the SSN on documents sent to third parties. RI-DDS informed us it deleted the SSN from the Medical Evidence of Record (MER) and consultative examinations letters in 2005 and taxi companies letters in 2006. RI-DDS also informed us that on August 30, 2007, it deleted the SSN from letters sent to Interpreters requesting their services.

RI-DDS informed us it currently does not include the SSN in any correspondence except on automated nightly follow-up letters to MER vendors. RI-DDS stated it is working with the provider of the case processing software to change the letter to exclude the SSN; however, they are uncertain if/when the change will take place.

We commend RI-DDS for the efforts taken to ensure that SSNs are not disclosed in correspondence to vendors and we encourage it to continue these efforts to exclude the SSN from the automated nightly follow-up letters to MER vendors.



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 SSA Form-4513—State Agency  
Report of Obligations for SSA Disability Programs

APPENDIX D – Agency Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

### Acronyms

Act	Social Security Act
ASAP	Automated Standard Application for Payments
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
MER	Medical Evidence of Record
OIG	Office of the Inspector General
OMB	Office of Management and Budget
Pub. L. No.	Public Law Number
RI-DDS	Rhode Island Disability Determination Services
SSA	Social Security Administration
SSA Form-4513	State Agency Report of Obligations for SSA Disability Programs
SSI	Supplemental Security Income
SSN	Social Security Number
Treasury	Department of Treasury



## **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 both the DI and SSI programs are performed by disability determination services (DDS) in each State, Puerto Rico and the District of Columbia 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* (SSA Form-4513) to account for program disbursements and unliquidated obligations.

### **SCOPE**

To accomplish our objectives, we reviewed the administrative costs the Rhode Island Disability Determination Services (RI-DDS) reported on its SSA Forms-4513 for FYs 2003 and 2004. For the periods reviewed, we obtained evidence to evaluate

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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> Cash Management Improvement Act of 1990, Pub. L. No. 101-453, 104 Stat 1058.

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 (POMS).

We also:

- Reviewed applicable Federal laws, regulations and pertinent parts of POMS DI 39500, *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by RI-DDS and draw down of SSA funds covered by the Cash Management Improvement Act.
- Interviewed staff at RI-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 RI-DDS on SSA Forms-4513 for FYs 2003 and 2004.
- Examined the administrative expenditures (personnel, medical service, and all other non-personnel costs) incurred and claimed by RI-DDS for FYs 2003 and 2004 on SSA Forms-4513.
- Recomputed indirect costs claimed by RI-DDS for FYs 2003 and 2004 based on the approved indirect cost allocation plan.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on SSA Forms-4513.
- Reviewed the State of Rhode Island Single Audit reports issued in 2003 and 2004.
- 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 SSA Forms-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We performed our audit at the RI-DDS in Providence, Rhode Island and the Office of Audit in Boston, Massachusetts from April 2007 through August 2007. We conducted our audit in accordance with generally accepted government auditing standards.

## **METHODOLOGY**

Our sampling methodology encompassed the three general areas of costs as reported on SSA Forms-4513: (1) personnel, (2) medical, and (3) all other non-personnel costs. We obtained computerized data from RI-DDS for FYs 2003, and 2004 for use in statistical sampling.

## **Personnel Costs**

We sampled 43 employee salary items from 1 randomly selected pay period in FY 2004. 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 RI-DDS correctly paid employees and adequately documented these payments.

We also sampled 50 randomly selected medical consultant costs from FY 2004. We determined whether sampled costs were reimbursed properly and ensured the selected medical consultants were licensed.

## **Medical Costs**

We sampled a total of 100 medical evidence of record and consultative examination expenses (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 8 categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing Maintenance, (4) Equipment Rental, (5) Communications, (6) Applicant 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.

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

### Rhode Island Disability Determination Services

#### FISCAL YEARS (FY) 2003 and 2004 COMBINED

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$7,620,254	\$0	\$7,620,254
Medical	\$3,255,527	\$0	\$3,255,527
Indirect	\$620,996	\$0	\$620,996
All Other	\$1,427,691	\$0	\$1,427,691
<b>TOTAL</b>	<b>\$12,924,468<sup>1</sup></b>	<b>\$0</b>	<b>\$12,924,468</b>

#### FY 2003

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$3,847,357	\$0	\$3,847,357
Medical	\$1,657,822	\$0	\$1,657,822
Indirect	\$302,833	\$0	\$302,833
All Other	\$694,944	\$0	\$694,944
<b>TOTAL</b>	<b>\$6,502,956</b>	<b>\$0</b>	<b>\$6,502,956</b>

#### FY 2004

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$3,772,897	\$0	\$3,772,897
Medical	\$1,597,705	\$0	\$1,597,705
Indirect	\$318,163	\$0	\$318,163
All Other	\$732,747	\$0	\$732,747
<b>TOTAL</b>	<b>\$6,421,512</b>	<b>\$0</b>	<b>\$6,421,512</b>

<sup>1</sup> As noted in the body of the report, the cash draw downs exceeded the disbursements recorded on the SSA Form-4513.

## Agency Comments



### SOCIAL SECURITY

#### MEMORANDUM

**Date:** November 20, 2007 **Refer To:** S2D1G5/DI-16

**To:** Patrick J. O'Carroll, Jr.  
Inspector General

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

**Subject:** Administrative Costs Claimed by the Rhode Island Disability Determination Services (A-01-06-15069) (Your Memo, 10/18/07) - REPLY

We have reviewed the draft report on the administrative costs audit (A-01-06-15069) for the Rhode Island Disability Determinations Services for Fiscal Years (FYs) 2003 and 2004.

We fully support the recommendation that the RI DDS reconcile the SSA Form-4513 expenditure reports for the FYs 2002 through the present, and to compare the SSA Form-4513 costs to the amounts drawn down.

We appreciate the time and effort the auditors put into trying to resolve the draw down issues for the years under their audit, as well as for the additional years (FY2002 and FY 2005) we further questioned. It is unfortunate that the State was unable to provide the information the auditors needed to fully resolve this during their audit.

## **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, Senior Auditor

For additional copies of this report, please visit our web site at [www.socialsecurity.gov/oig](http://www.socialsecurity.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-01-06-15069.

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The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

### **Office of Audit**

OA conducts and/or supervises 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 and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

### **Office of Investigations**

OI conducts and coordinates investigative activity 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 OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

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

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### **Office of Resource Management**

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.