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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  
MASSACHUSETTS DISABILITY  
DETERMINATION SERVICES**

**August 2009 A-01-09-19035**

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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: August 26, 2009

Refer To:

To: Manuel J. Vaz  
Regional Commissioner  
Boston

From: Inspector General

Subject: Administrative Costs Claimed by the Massachusetts Disability Determination Services (A-01-09-19035)

### OBJECTIVE

For our audit of Fiscal Year (FY) 2006 and 2007 administrative costs claimed by the Massachusetts Disability Determination Services (MA-DDS), our objectives were to

- evaluate MA-DDS' internal controls over the accounting and reporting of administrative costs,
- determine whether costs claimed by MA-DDS were allowable and properly allocated 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. Such determinations are required to be performed in accordance with Federal law and underlying 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, each DDS is authorized to purchase consultative medical examinations and medical evidence of record 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

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<sup>1</sup> 42 U.S.C. § 421; 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

*State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513).*  
 (For additional background information, see Appendix B of this report.)

## RESULTS OF REVIEW

Except for the items discussed in the following sections, we determined that costs claimed on Forms SSA-4513 for the period October 1, 2005 through September 30, 2007 were allowable and properly allocated, and the system of internal controls over the accounting and reporting of administrative costs was effective. Also, cumulative draw downs did not exceed cumulative disbursements during our audit period. Finally, our limited review of MA-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 COST ALLOCATION

We calculated variances on indirect costs of \$148,275 in FY 2006 and \$162,217 in FY 2007. The variances were due to MA-DDS' use of an indirect cost rate lower than the approved rate. Therefore, MA-DDS underreported the amount of indirect charges on Form SSA-4513 for FYs 2006 and 2007.

We also calculated the indirect costs for FY 2008 to determine whether the variances were corrected in the subsequent year. As shown in Table 1, the variances for the 3-year period netted an underreported indirect cost amount of \$146,919.

As of June 2009, MA-DDS had planned to post an adjusting entry to Form SSA-4513 for FY 2008 to correctly reflect the actual indirect costs incurred by MA-DDS for FYs 2006 through 2008.

<b>Table 1: Reconciliation of Indirect Costs</b>			
<b>FY</b>	<b>Auditor's Calculation</b>	<b>SSA-4513</b>	<b>Variance</b>
2006	\$839,473	\$691,198	\$148,275
2007	1,008,061	845,844	162,217
2008	1,566,452	1,730,025	(163,573)
<b>Total</b>	<b>\$3,413,986</b>	<b>\$3,267,067</b>	<b>\$146,919</b>

## **EXPENDITURE CLASSIFICATION**

Based on our samples, we found that some expenditures were misclassified during the period audited. For example, we found eight invoices totaling \$9,780 for the same vendor were classified as Applicant Travel; however, they should have been coded as Contracted Costs. Also, we found a \$5,450 invoice that was classified as Equipment Rental, yet it was related to Equipment Purchase.

## **EXPENDITURE ACCURACY**

We identified an expense item related to Applicant Travel in which a vendor was overpaid \$178 in FY 2006. When we notified MA-DDS of this discrepancy, it contacted the vendor and obtained a refund for the \$178 overage. MA-DDS implemented a new procedure on April 29, 2009 in which the supervisor will ensure that the payment amount entered into the procurement system matches the invoice amount before the payment is issued.

Also, when we recalculated the bi-weekly payroll amount for a medical consultant in FY 2007, we found that the individual was overpaid for 1 hour of work, at a contracted rate of \$68 per hour.

Both of these issues were immaterial in amount and rare in occurrence based on the sample items we analyzed.<sup>2</sup>

## **INFORMATION CHARGEBACKS**

During our review, SSA's Boston Regional Office expressed concern about specific Miscellaneous expenses designated as Information Chargebacks. This type of expense is comprised of costs associated with the operation and maintenance of a centralized accounting system. The expense is paid by all State agencies in the Commonwealth of Massachusetts on a proportionally allocated basis.<sup>3</sup> These charges were recorded in FYs 2006 and 2007 in the amounts of approximately \$776,000 and \$691,000, respectively.

We contacted personnel and/or reviewed documents from the MA-DDS, Boston Regional Office, Office of the Comptroller of the Commonwealth of Massachusetts, and Massachusetts Rehabilitation Commission (the parent agency of MA-DDS). We found that these charges dated back to FY 2005. Since that time, the United States Department of Health and Human Services has approved the charges annually.

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<sup>2</sup> For FYs 2006 and 2007, total administrative expenses for MA-DDS were approximately \$36 million and \$37 million, respectively.

<sup>3</sup> The Information Chargebacks are based on a State agency's share of usage of the accounting system, determined by actual transaction lines posted to the general ledger.

## **CONCLUSION AND RECOMMENDATIONS**

Overall, MA-DDS had effective internal controls over the accounting and reporting of administrative costs for FYs 2006 and 2007. Also, the controls in place for general security and personally identifiable information at MA-DDS were satisfactory. MA-DDS took immediate corrective action on the overpayment we identified from the Applicant Travel expenditure group, and it added a control to its payment procedures to verify the dollar amount of the invoice to the payment amount before a check is issued.

However, based on our findings, we recommend that SSA instruct MA-DDS to:

1. Reconcile the amounts for indirect cost allocations and record an adjusting entry as necessary.
2. Review expenses to ensure they are classified correctly on Form SSA-4513.

## **AGENCY COMMENTS**

SSA agreed with the recommendations. (See Appendix D for SSA's comments and Appendix E for the State Agency comments.)



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 – State Agency Comments

APPENDIX F – OIG Contacts and Staff Acknowledgments

### Acronyms

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
EDP	Electronic Data Processing
FY	Fiscal Year
Form SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
MA-DDS	Massachusetts Disability Determination Services
OIG	Office of the Inspector General
OMB	Office of Management and Budget
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, 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 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 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 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.

## SCOPE

To accomplish our objectives, we reviewed the administrative costs the Massachusetts Disability Determination Services (MA-DDS) reported on its Forms SSA-4513 for

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<sup>1</sup> 42 U.S.C. § 421; 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.

FYs 2006 and 2007. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions and determine whether they were allowable and appropriate under OMB Circular A-87 and 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 MA-DDS and draw down of SSA funds.
- Interviewed staff at MA-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 MA-DDS on Forms SSA-4513 for FYs 2006 and 2007.
- Examined the administrative expenditures (Personnel, Medical, and All Other Non-personnel costs) incurred and claimed by MA-DDS for FYs 2006 and 2007 on Forms SSA-4513.
- Examined the indirect costs claimed by MA-DDS for FYs 2006 and 2007 and the corresponding Indirect Cost Rate Agreements.<sup>4</sup>
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Reviewed the State of Massachusetts Single Audit reports issued in 2006 and 2007.
- Conducted limited general control testing—which encompassed reviewing the physical access security in 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 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 MA-DDS and the Office of Audit in Boston, Massachusetts, from March through June 2009. 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

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<sup>4</sup> We also examined the indirect costs and corresponding Indirect Cost Rate Agreements for FY 2008, although it was outside the scope of 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 Form SSA-4513: (1) Personnel, (2) Medical, and (3) All Other Non-personnel costs. We obtained computerized data from MA-DDS for FYs 2006 and 2007 for use in statistical sampling.

### **Personnel Costs**

We sampled 50 employee salary items from 1 randomly selected pay period in FY 2007. We tested 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 MA-DDS correctly paid employees and adequately documented these payments.

We also sampled 50 medical consultant costs from 1 randomly selected pay period in FY 2007. 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 10 categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing (EDP) Maintenance, (4) New EDP Equipment/Upgrades (5) Equipment Purchase & 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 to total costs.<sup>5</sup> We also performed a 100-percent review of the rent portion of Occupancy and the Cooperative Disability Investigations portion of Miscellaneous. Additionally, we gained an understanding of the Information Chargeback portion of Miscellaneous.

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<sup>5</sup> If a category was less than 1 percent of the total costs for the applicable FY, we did not select a stratified random sample for those costs, but instead, reviewed all items within the category.

## Personally Identifiable Information

We reviewed a random sample of various mailed documents MA-DDS produced and found that personally identifiable information was referenced only on those deemed necessary, such as notices addressed to doctors, hospitals, medical providers, etc.<sup>6</sup>

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<sup>6</sup> Entities in the medical profession typically identify patients based on their Social Security number.

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

### Massachusetts Disability Determination Services

#### FISCAL YEARS (FY) 2006 and 2007 COMBINED

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$46,981,458	\$0	\$46,981,458
Medical	\$11,655,263	\$0	\$11,655,263
Indirect	\$1,537,042	\$0	\$1,537,042
All Other	\$13,156,151	\$0	\$13,156,151
<b>TOTAL</b>	<b>\$73,329,914</b>	<b>\$0</b>	<b>\$73,329,914</b>

#### FY 2006

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$22,917,208	\$0	\$22,917,208
Medical	\$5,684,475	\$0	\$5,684,475
Indirect	\$691,198	\$0	\$691,198
All Other	\$6,933,748	\$0	\$6,933,748
<b>TOTAL</b>	<b>\$36,226,629</b>	<b>\$0</b>	<b>\$36,226,629</b>

#### FY 2007

REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$24,064,250	\$0	\$24,064,250
Medical	\$5,970,788	\$0	\$5,970,788
Indirect	\$845,844	\$0	\$845,844
All Other	\$6,222,403	\$0	\$6,222,403
<b>TOTAL</b>	<b>\$37,103,285</b>	<b>\$0</b>	<b>\$37,103,285</b>

## Agency Comments



## SOCIAL SECURITY

### MEMORANDUM

**Date:** July 27, 2009

**Refer To:** S2D1G5/DI-  
16/ORC-2009-11702

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

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

**Subject:** Administrative Costs Claimed by the Massachusetts Disability Determination Services (A-01-09-19035) – Reply (Your Memo, July 15, 2009)

We have reviewed the draft report for the administrative audit on the Massachusetts Disability Determination Services (MA DDS) (A-01-09-19035) and concur with both recommendations. In fact, the MA DDS plans to take action to reconcile the amounts for indirect cost allocations, when they submit their quarterly SSA-4513 reports for the quarter ending 6/30/09.

We thank you for the opportunity to provide these comments to the draft report. We have always enjoyed a collegial and professional rapport with our OIG auditors, and have the utmost respect and appreciation for their communication efforts and dedication to the audit process.

## State Agency Comments





DEVAL L. PATRICK  
GOVERNOR

TIMOTHY P. MURRAY  
LIEUTENANT GOVERNOR

JUDYANN BIGBY, M.D.  
SECRETARY

Charles Carr  
COMMISSIONER

*The Commonwealth of Massachusetts  
Executive Office of Health and Human Services  
Massachusetts Rehabilitation Commission  
Fort Point Place  
27 Wormwood Street  
Boston, MA 02210 - 1616*

August 14, 2009

Patrick P. O'Carroll, Jr.  
Office of Inspector General  
Social Security Regional Office  
John F. Kennedy Building – 19<sup>th</sup> floor  
Boston, MA 02203

RE: Administrative Costs Claimed by the Massachusetts Disability Determination Services  
(A-01-09-19035) FY 2006 and 2007

Dear Mr. O'Carroll, Jr.

In reference to the Office of The Inspector General, Social Security Administration, Administrative Costs Claimed by the Massachusetts Disability Determination Services A-01-09-19035 Audit Report, we concur with your audit conclusions and recommendations.

The corrective action plan is the responsibility of the Massachusetts Rehabilitation Commission/Disability Determination Services Division. The reconciliation of FY 2006 and 2007 indirect cost allocations took place in October 2008. The indirect cost allocations were corrected to the State comptroller's rate. To ensure that they are correctly classified on form SSA-4513, all expense line items are reviewed on a monthly basis.

The contact person related to this matter is Luis Mancebo, Fiscal Director, MRC/DDS, Fiscal Department, Boston MA. Mr. Mancebo may be reached at 617.654.7403 or by email at [Luis.A.Mancebo@ssa.gov](mailto:Luis.A.Mancebo@ssa.gov).

Very truly yours,

A handwritten signature in cursive script that reads "Charles Carr".

Charles Carr  
Commissioner

## **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, Auditor

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 Staff Assistant at (410) 965-4518. Refer to Common Identification Number A-01-09-19035.

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Social Security Advisory Board

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### **Office of Audit**

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.

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