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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 VIRGINIA DISABILITY  
DETERMINATION SERVICES**

**August 2012**

**A-03-12-11207**

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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.**

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## SOCIAL SECURITY

### MEMORANDUM

Date: August 27, 2012

Refer To:

To: Terry Stradtman  
Regional Commissioner  
Philadelphia

From: Inspector General

Subject: Administrative Costs Claimed by the Virginia Disability Determination Services  
(A-03-12-11207)

### OBJECTIVE

Our objectives were to (1) evaluate Virginia Disability Determination Services' (VA-DDS) internal controls over the accounting and reporting of administrative costs; (2) determine whether costs claimed were allowable and properly allocated and funds were properly drawn; and (3) 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),<sup>1</sup> 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,<sup>2</sup> 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.<sup>3</sup> Disability determinations under both programs are performed by disability determination services (DDS) in each State, Puerto Rico, and the District of Columbia. Each DDS determines claimants' disabilities and ensures adequate evidence is available to support its determinations. To assist in making proper disability determinations, each

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<sup>1</sup> *Social Security Act* § 223(a)(1); 42 U.S.C. § 423(a)(1).

<sup>2</sup> *Social Security Act* §§ 1602 and 1611; 42 U.S.C. §§ 1381a and 1382.

<sup>3</sup> SSA, POMS, DI 00115.001 (May 21, 2009).

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.<sup>4</sup> 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>5</sup> and intergovernmental agreements entered into by the Department of the Treasury and States under the *Cash Management Improvement Act of 1990*.<sup>6</sup>

An advance or reimbursement for costs under the program must comply with Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.<sup>7</sup> 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.<sup>8</sup> Form SSA-4513 reports expenditures and unliquidated obligations for Personnel, Medical, Indirect, and All Other Non-personnel costs.<sup>9</sup>

VA-DDS is a component of the Virginia Department for Aging and Rehabilitative Services (VA-DRS). VA-DRS provides VA-DDS such administrative services as accounting for obligations, making purchases, and preparing requests to transfer cash from Treasury to the State Treasurer. In FYs 2009 and 2010, VA-DDS claimed costs of about \$39 and \$43 million, respectively (see Appendix C).

## RESULTS OF REVIEW

Generally, VA-DDS had effective controls over the accounting and reporting of administrative costs. The costs VA-DDS claimed on Forms SSA-4513 as of April 2012 for FYs 2009 and 2010 were allowable and properly allocated, and funds were properly drawn.

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<sup>4</sup> 20 C.F.R. §§ 404.1626 and 416.1026.

<sup>5</sup> 31 C.F.R. § 205.1 *et seq.*

<sup>6</sup> *Cash Management Improvement Act of 1990*, Pub. L. No. 101-453, 104 Stat. 1058 (1990).

<sup>7</sup> Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, (Revised May 10, 2004), establishes principles and standards for determining costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and federally-recognized Indian tribal governments (governmental units).

<sup>8</sup> SSA, POMS, DI 39506.201 and SSA, POMS, DI 39506.202 (March 12, 2002). SSA, POMS, DI 39506.200 B.4 (March 12, 2002) provides, in part, that, "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."

<sup>9</sup> *Id.*

However, we found that VA-DDS had been operating under a Memorandum of Understanding (MoU) that had been issued in January 1991 (over 20 years ago) and did not have a specified period of performance or expiration date. Although SSA issued instructions to all Regional Commissioners in February 2009<sup>10</sup> to update any existing MoUs that did not have an expiration date, we found, as of May 2012, the regional office (RO) had not finalized and signed a new MoU with VA-DDS.

Finally, our limited review of VA-DDS' physical security controls generally showed that controls were in place. Although the VA-DDS employees received the security awareness training online, the DDS needs to ensure its staff also signs the required security awareness acknowledgment statements.

## MEMORANDUM OF UNDERSTANDING

We found that VA-DDS had been operating under an MoU that had been issued in January 1991 (over 20 years ago) and did not have a specified period of performance or expiration date. The purpose of the DDS MOU is to define the terms and conditions under which the DDS makes disability determinations for non-SSA workloads.

The January 1991 MoU provided VA-DDS with fiscal and administrative procedures regarding their processing of work and its accounting and reporting requirements for non-SSA workloads. However, the MoU did not include provisions for governing the disclosure of SSA data or an expiration date because these were not requirements in 1991. In 2009, the Agency issued new requirements for MoUs informing the regions that if they had a non-SSA workload, for example Medicaid claims, their MoU should be renegotiated if it did not have a specified termination date. All DDS MoUs should now include language for the safeguard and disclosure of SSA data, language that gives SSA access all necessary SSA records to verify compliance with the agreement, and have a specified period of performance.

In February 2009, SSA instructed Regional Commissioners that all DDS MoUs, including those that did not have an expiration date, must be updated in FY 2009 to meet Office of General Counsel (OGC) guidelines. RO staff stated they had begun negotiating a revised MoU to meet the needs of the new Medicaid operation with VA-DDS in July 2008. Further, on May 16, 2012, the RO sent a draft MoU to SSA Headquarters for legal, budget, and security review. When we asked why the MoU had not been finalized, the RO informed us that there were multiple changes in the personnel responsible for negotiating the MoU at VA-DDS and the RO, and these breaks in continuity slowed the progress of a final MoU. Additionally, the MoU process is an ancillary duty, and there was no dedicated staff working on MoUs. The DDS also informed us that, in addition to vetting the MoU within SSA and the DDS, part of the document also required formal approval by two additional Federal agencies which caused delays in the approval process.

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<sup>10</sup> Email from Associate Commissioner for Disability Determinations to all Regional Commissioners, *Subject: Non-SSA Program Work Performed in the DDS-ACTION (February 9, 2009)*.

## GENERAL SECURITY CONTROLS

Our limited review of VA-DDS' physical security controls generally showed that controls were in place. However, the VA-DDS needs to ensure its staff also signs the required security awareness acknowledgment statements.

The VA-DDS staff completed the annual security awareness training online; however, there was conflicting guidance provided to the DDS regarding security awareness training, and employees did not sign the required acknowledgment statement. All SSA information system users are required to complete annual security awareness training, including awareness of security risks, user responsibilities, Agency security compliance policies and procedures, and role-based training needs.<sup>11</sup> SSA's current policy states that management must provide training to personnel at least annually on security awareness and responsibilities in protecting personally identifiable information and maintaining integrity; and management must validate the training.<sup>12</sup> In addition, all employees and contractors must sign an annual statement acknowledging their understanding of security awareness. Further, the DDS should keep the signed statement on file in the DDS for at least 1 year, and send a copy to the designated RO component, such as the Centers for Disability Programs or Security and Integrity.<sup>13</sup>

When we asked to view the signed statements for FY 2011, we found that VA-DDS did not require that employees sign statements attesting that they received the required annual training that year. The DDS informed us that although all employees received the training online, they did not ensure all employees signed the acknowledgment statement. When we contacted regional managers about the annual training acknowledgment statements, they indicated the region did not request copies of the signed statements from the DDS because they were able to track the training through DDS employees' personal identification numbers.

The Agency informed us that staff was revising policy to require that the DDS send copies of signed annual security awareness training statements to the RO. Instead of copies of statements, the revised policy will require that DDS managers provide a report containing the names and personal identification numbers of all DDS employees and contractors who received security awareness training. In addition to the names and personal identification numbers, the report will be certified by a DDS manager validating that all required DDS employees and contractors received the training and signed the acknowledgment statement.

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<sup>11</sup> SSA, OIS, *Information Systems Security Handbook (ISSH): Systems Security Training & Awareness Policy*, Chapter 9.0 (March 19, 2007).

<sup>12</sup> *Id.* at 9.3.1.

<sup>13</sup> DDS Administrators' Letter No. 715, from Associate Commissioner for Disability Determinations to all Regional Commissioners and State Disability Determination Services Administrators, *Subject: DDS Security Reminders – INFORMATION*, (October 16, 2006).

## CONCLUSION AND RECOMMENDATIONS

VA-DDS' internal controls over the accounting and reporting of administrative costs were effective. However, SSA's Philadelphia Region should adhere to the Agency's instructions sent to all ROs in February 2009 to update, finalize, and sign a new MoU. Also, VA-DDS should conduct security awareness training annually and ensure that it maintains the signed security acknowledgment statements.

Based on the results of our audit, we recommend that SSA:

1. Finalize and sign a new MoU that complies with the current guidance.
2. Instruct VA-DDS to conduct security awareness training annually and maintain the signed annual security acknowledgment statements on file for a minimum of 1 year, and validate to the RO that all employees and contractors received the training and signed the acknowledgment statement.

## AGENCY COMMENTS

SSA and the VA-DRS agreed with our recommendations. See Appendices E and F, respectively, for the full texts of the comments.

A handwritten signature in black ink, appearing to read "Pat O'Carroll Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

# *Appendices*

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APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Schedule of Total Costs Reported on Forms SSA-4513—State Agency Reports of Obligations for SSA's Disability Programs

APPENDIX D – Agency Comments

APPENDIX E – Parent 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
FY	Fiscal Year
MOU	Memorandum of Understanding
OGC	Office of General Counsel
OIG	Office of the Inspector General
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
RO	Regional Office
SSA	Social Security Administration
SSI	Supplemental Security Income
VA-DDS	Virginia Disability Determination Services
VA-DRS	Virginia Department for Aging and Rehabilitative Services
U.S.C.	United States Code
 <b><i>FORM</i></b>	
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>

### Scope and Methodology

To accomplish our objectives, we reviewed the administrative costs Virginia Disability Determination Services (VA-DDS) reported on its State Agency Report of Obligations for SSA's Disability Programs, Forms SSA-4513, for Fiscal Years (FY) 2009 and 2010. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions and determine whether they were allowable under Office of Management and Budget Circular A-87, and appropriate, as defined by the Social Security Administration's (SSA) 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 VA-DDS and draw down of SSA funds.
- Interviewed staff at VA-DDS and the Philadelphia 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 VA-DDS on Forms SSA-4513 for FYs 2009 and 2010.
- Examined the administrative expenditures (Personnel, Medical Service, and All Other Non-personnel costs) incurred and claimed by VA-DDS for FYs 2009 and 2010 on Forms SSA-4513.
- Examined the indirect costs claimed by VA-DDS for FYs 2009 and 2010 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 June 2009 State of Virginia Single Audit report issued in and the May 2006 VA-DDS audit
- Conducted limited general control testing, which encompassed reviewing the physical access security within the DDS.

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 VA-DDS Administrative Building, VA-DDS Central Regional Office, and Department of Rehabilitative Services in Richmond, Virginia; VA-DDS Richmond Office; and Office of Audit in Philadelphia, Pennsylvania, from

March through May 2012. 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 and 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 four general areas of costs as reported on Forms SSA-4513: (1) Personnel, (2) Medical, (3) Medical Consultants, and (4) All Other Non-personnel costs. We obtained computerized data from VA-DDS for FYs 2009 and 2010 for use in statistical sampling. In addition, we reviewed general security controls the DDS had in place.

### ***Personnel Costs***

We sampled 50 employee salary items from 1 randomly selected pay period in FY 2010. 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 VA-DDS correctly paid employees and adequately documented these payments.

We reviewed all 28 medical consultant costs from 1 randomly selected pay period in FY 2010. We determined whether costs were reimbursed properly and ensured the medical consultants were licensed.

### ***Medical Costs***

We sampled a total of 100 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 VA-DDS in compliance with the approved Indirect Cost Rate Agreement. We analyzed the approved rate used, 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, fixed, or final rate.

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

We stratified All Other Non-personnel costs into nine categories: (1) Occupancy, (2) Contracted Costs, (3) New Electronic Data Processing, (4) Equipment Rental, (5) Communications, (6) Applicant Travel, (7) DDS Travel, (8) Supplies, and (9) Miscellaneous. We selected a stratified random sample of 50 items from FY 2009 and 50 items from FY 2010 based on the percentage of costs in each category to total costs. We also performed a 100-percent review of 20 unidentifiable cost items for the Richmond DDS office.

### ***General Security Controls***

We conducted limited general security control testing. Specifically, we reviewed the following eight areas relating to general security controls: (1) Perimeter Security, (2) Intrusion Detection, (3) Key Management, (4) Internal Office Security, (5) Equipment Rooms, (6) Security Plan, (7) Continuity of Operations, and (8) Other Security Issues. We determined whether the general security controls the DDS had in place were satisfactory.

### ***Personally Identifiable Information***

We reviewed a random sample of various mailed documents VA-DDS produced to determine whether personally identifiable information was referenced only on those deemed necessary.

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

Virginia Disability Determination Services		
REPORTING ITEM	FY 2009 <i>as of April 30, 2012</i>	FY 2010 <i>as of April 30, 2012</i>
Disbursements		
Personnel	\$22,148,430	\$25,966,679
Medical	\$7,048,996	\$8,573,568
Indirect Costs	\$4,572,509	\$5,295,314
All Other Non- Personnel	\$4,837,819	\$3,527,116
<b>Total Disbursements</b>	<b>\$38,607,754</b>	<b>\$43,362,677</b>
Unliquidated Obligations	\$100,495*	\$9,183
<b>Total Obligations</b>	<b>\$38,708,249</b>	<b>\$43,371,860</b>

\*As of May 29, 2012, \$99,646 is for recently installed and billed telephone system upgrade

# Agency Comments

August 1, 2012

In response to the draft audit report on Administrative Costs Claimed by the Virginia Disability Determination Services (A-03-12-11207) for fiscal years 2009 and 2010, the Philadelphia Region is submitting the following corrective action plan that also provides a status of each recommendation:

**Recommendation #1:**

Finalize and sign a new MOU that complies with the current guidance.

**Response:**

A new memorandum of understanding (MOU) between SSA, Virginia Department for Aging and Rehabilitative Services, and Virginia Department of Medical Assistance Services was approved and finalized with an effective date of July 1, 2012.

**Recommendation #2:**

Instruct VA-DDS to conduct security awareness training annually, maintain the signed annual security awareness statements on file for a minimum of 1 year, and validate to the RO that all DDS employees and contractors received the training and signed the acknowledgement statement.

**Response:**

The Virginia DDS conducted its annual security awareness training on time. SSA tracked the completion of the training through the DDS employees' Personal Identification Numbers. SSA will instruct the DDS to maintain the signed annual security awareness statements on file for a minimum of 1 year and validate to the Regional Office that all DDS employees and contractors received the training and signed the acknowledgement statements.

Staff questions should be directed to [Jim Steiner](#) by email, or at 215-597-2046 in the Center for Disability Programs.

Terry M. Stradtman  
Regional Commissioner

## Parent Agency Comments



**COMMONWEALTH OF VIRGINIA**  
**DEPARTMENT FOR AGING AND REHABILITATIVE SERVICES**

JAMES A. ROTHROCK  
Commissioner

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August 1, 2012

**MEMORANDUM**

**SUBJECT:** Response to OIG Audit Report, *Administrative Cost Claimed by the Virginia Disability Determination Services (A-03-12-11207)*

**FROM:** James A. Rothrock, Commissioner

**TO:** Patrick P. O'Carroll, Jr.

Thank you for the opportunity to review and respond to the Office of Inspector General audit report, *Administrative Costs Claimed by the Virginia Disability Determination Services (A-03-12-11207)* dated July 2, 2012.

The comments below represent a response from the Virginia Disability Determination Services (DDS) to recommendations 1 and 2.

**OIG RECOMMENDATIONS AND DDS RESPONSE**

OIG Recommendation 1: Finalize and sign a new MOU that complies with the current guidance.

DDS Corrective Action: DDS concurs with the recommendation.

A new memorandum of understanding (MOU) between SSA, Virginia Department for Aging and Rehabilitative Services, and Virginia Department of Medical Assistance Services was approved and finalized with an effective date of July 1, 2012.

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Due to changes in technology, organizational structure, and the programmatic changes within the SSA and Medicaid programs, as early as 2007 the DDS recognized the need for a new MOU that would govern work and reporting on the non-SSA workload. Since that point, the DDS has worked constantly with SSA (regional and central office), the Virginia Department of Medical Assistance Services (DMAS), Centers for Medicare & Medicaid Services (CMS), and HHS Division of Cost Allocation (DCA) to produce a MOU. There was active work on execution of a document satisfactory to all stakeholders for approximately four years. The primary delay with the MOU was the ever-increasing number of stakeholders, multiple agencies requiring approval, proper discussion and vetting of critical issues, and education across all agencies/divisions. In May of 2009, it became apparent that the most critical piece of the MOU would be the cost allocation addendum, at this point CMS and DCA were involved. Due to staffing shortages, DCA, the federal agency responsible for approval of the cost allocation addendum, transferred the responsibility through three different regions around the country and did not approve the cost allocation plan until March 5, 2012. The DDS and SSA promptly attached the approved addendum and routed the document for execution. As of July 1, 2012, the MOU was fully executed by DDS/DARS, DMAS, and SSA.

OIG Recommendation 2: Instruct VA-DDS to conduct security awareness training annually, maintain the signed annual security awareness statements on file for a minimum of 1 year, and validate to the RO that all DDS employees and contractors received the training and signed the acknowledgement statement.

DDS Corrective Action: DDS concurs with the recommendation.

Prior to 2011 there was no online security awareness training for the DDS, the local security officer (LSO) at each site would deliver the training via PowerPoint presentation locally, and obtain a signed acknowledgement from each user to document compliance. Training under that format did not occur at the Richmond, VA site in 2011. This is the process/standard by which auditors are required to confirm compliance; since the training via this protocol did not occur, we concur with the audit finding and recommendation.

Additionally, we find it relevant to document, that the institution of the online training delivered by SSA in 2011 resulted in a level of confusion. The online training was essentially the same material that the LSO traditionally covered. Compliance for the new online training is tracked via user PIN, not via signed acknowledgement statement. The LSO made an assumption that the online training replaced the local training. If not for the rollout of the online training, the Richmond site would have completed the training under the traditional format.

There is no POMS guidance on compliance documentation for the online training. The online training was offered in 2011 with the understanding that SSA would reconcile active users from Top Secret against their list of PINS with successful completion of the online training. DDS staff completed the online training with greater than 99% compliance (per the SSA reconciliation report) the exceptions were on extended leave.

## OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Cylinda McCloud-Keal, Director, Philadelphia Audit Division

Carol Madonna, Audit Manager

### ***Acknowledgments***

In addition to those named above:

Damon Mahoner, Auditor-in-Charge

Michael J. Brooks, Auditor

Walter Mingo, 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 at (410) 965-4518. Refer to Common Identification Number A-03-12-11207.

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