



SOCIAL SECURITY

MEMORANDUM

Date: May 4, 2011

Refer To:

To: Michael Grochowski
Regional Commissioner
Atlanta

From: Inspector General

Subject: Administrative Costs Claimed by the South Carolina Disability Determination Services
(A-04-10-10178)

The attached final report presents the results of our review. Our objectives were to evaluate the South Carolina Disability Determination Services' (SC-DDS) internal controls over the accounting and reporting of administrative costs; determine whether the SC-DDS claimed allowable costs and accurately allocated and properly drew down funds; and assess limited areas of the general security controls environment. Our audit included the administrative costs SC-DDS claimed during Federal Fiscal Years 2008 and 2009.

Please provide within 60 days a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

Patrick P. O'Carroll, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED BY
THE SOUTH CAROLINA DISABILITY
DETERMINATION SERVICES**

May 2011

A-04-10-10178

AUDIT REPORT



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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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:

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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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- 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.**

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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

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Regional Commissioner
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Subject: Administrative Costs Claimed by the South Carolina Disability Determination Services (A-04-10-10178)

OBJECTIVE

Our objectives were to evaluate the South Carolina Disability Determination Services' (SC-DDS) internal controls over the accounting and reporting of administrative costs; determine whether the SC-DDS claimed allowable costs and accurately allocated and properly drew down funds; and assess limited areas of the general security controls environment. Our audit included the administrative costs SC-DDS claimed during Federal Fiscal Years (FY) 2008 and 2009.

BACKGROUND

According to Federal regulations,¹ disability determination services (DDS) in each State or other responsible jurisdiction perform disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To make proper disability determinations, SSA authorizes each DDS to purchase 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-4513).

The South Carolina Vocational Rehabilitation Department is SC-DDS' parent agency and provides financial, accounting, and personnel services to SC-DDS. SC-DDS' administrative office is located in Columbia, South Carolina. Its three regional offices in Charleston, Columbia, and Greenville, South Carolina, process SSA disability claims.

¹ 20 C.F.R. §§ 404.1601 *et. seq.* and 416.1001 *et seq.*

In FYs 2008 and 2009, SC-DDS claimed costs of about \$32 million and \$37 million, respectively. For additional background and our audit scope and methodology, see Appendices B and C.

RESULTS OF REVIEW

For FYs 2008 and 2009, the SC-DDS had adequate internal controls over the accounting and reporting of administrative costs. However, we noted limited exceptions in which the SC-DDS claimed excess personnel service costs of \$983,267 in FY 2009. Most of the excess costs (\$983,502) resulted from one transaction that occurred while the State was implementing a new accounting system. We believe this is an anomalous incident that did not affect our overall assessment of the SC-DDS' internal controls. We also determined the SC-DDS accurately allocated and properly drew down funds and had sufficient controls to protect claimant data and ensure the ongoing security of personnel and property.

OVERSTATED PERSONNEL SERVICE COSTS

In FY 2009, SC-DDS incorrectly claimed \$985,267 in personnel service costs. The overstated charges occurred because the SC-DDS erroneously duplicated a \$983,502 cost item and paid \$1,765 in wages to an employee at an incorrect rate.

DUPLICATE COSTS CLAIMED

SC-DDS incorrectly claimed an additional \$983,502 in personnel service costs on the SSA-4513 for the 7th quarter² of FY 2009. In November 2009, the State of South Carolina implemented a new State-wide accounting system. Conversion to the new accounting system required that the SC-DDS adjust its accounting records as late as the 7th quarter of FY 2009. However, the SC-DDS did not reconcile all the accounting adjustments it made during the system conversion with costs it claimed on previous SSA-4513s. As a result, the SC-DDS did not identify a \$983,502 cost adjustment it erroneously duplicated during the system conversion.

The SC-DDS Director agreed that the DDS mistakenly claimed these costs and stated that the DDS would revise its SSA-4513s to eliminate \$983,502 from personnel service costs. SSA officials informed us that SSA would rescind funding in the same amount from the SC-DDS operating fund account.

² A DDS' financial reporting period may extend beyond the 4th quarter of a particular FY. Specifically, a DDS' FY reporting period remains open until all the FY fund obligations are liquidated or until the end of the fifth FY after the year for which SSA obligated funds. When a DDS' financial reporting period extends beyond the 4th quarter of a FY, the DDS must continue to report quarterly to SSA (on the SSA-4513) its cumulative costs, including adjustments to previously reported costs. Program Operations Manual System DI 39506.201.A. and DI 39506.203.B.

Incorrect Wage Costs Claimed

SC-DDS incorrectly claimed \$1,765 in wages for one employee in FY 2009. In March 2009, a DDS employee requested, and DDS management approved, a change in job position, which included a reduction in salary. However, the Human Resources Office in the South Carolina Vocational Rehabilitation Department did not record the change in the payroll system until February 2010. Therefore, the DDS continued to pay the employee the higher salary for an additional 7 months in FY 2009 and 4 months in FY 2010.³ As such, the DDS overpaid the employee \$1,765 in FY 2009 and \$1,009 in FY 2010—for a total overpayment of \$2,774. SC-DDS claimed the costs for the overpaid wages in FYs 2009 and 2010. SC-DDS' Director (1) agreed that the DDS should not have claimed the overpaid costs for reimbursement and (2) stated that the DDS would revise the appropriate SSA-4513s to reduce the personnel service costs for the affected periods.

CONCLUSION AND RECOMMENDATIONS

For FYs 2008 and 2009, the SC-DDS had adequate internal controls over the accounting and reporting of administrative costs, which generally ensured it claimed allowable costs and accurately allocated and drew down funds. Additionally, the SC-DDS generally had adequate controls to protect claimant data and ensure the ongoing security of personnel and property. However, we determined that the SC-DDS claimed \$985,267 in excess personnel service costs in FY 2009 and \$1,009 in FY 2010—for a total of \$986,276 in excess personnel service costs. Accordingly, we recommend the SSA Regional Commissioner:

1. Ensure SC-DDS revises the appropriate SSA-4513s to reduce \$983,502 in overstated personnel service costs claimed in FY 2009.
2. Continue with plans to rescind \$983,502 from the SC-DDS' FY 2009 operating fund.
3. Ensure SC-DDS revises the appropriate SSA-4513s to reduce \$2,774 in personnel costs claimed for incorrect wages in FYs 2009 and 2010.

AGENCY COMMENTS

SSA and the South Carolina Vocational Rehabilitation Department agreed with our recommendations. See Appendices D and E, respectively, for the full text of the comments.

³ We did not include FY 2010 in our audit period. However, we included the amount paid during FY 2010 (\$1,003) in the total overpayment, which SSA should recover.

OTHER MATTERS

The SC-DDS' generally had adequate controls to protect claimant data and ensure the ongoing security of personnel and property. However, our review identified several minor physical security weaknesses. We notified the SC-DDS Director of our concerns. The Director informed us SC-DDS took corrective actions to remedy some of the weaknesses and will work with SSA officials to resolve the remaining issues.

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

Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Background, Scope, and Methodology

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

APPENDIX D – Agency Comments

APPENDIX E – South Carolina Vocational Rehabilitation Department 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
OIG	Office of the Inspector General
Pub. L. No.	Public Law Number
SC-DDS	South Carolina Disability Determination Services
SSA	Social Security Administration
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
SSI	Supplemental Security Income
Treasury	Department of the 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.¹ 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.²

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determination services (DDS) in each State, Puerto Rico, and the District of Columbia, perform disability determinations under both the DI and SSI programs, in accordance with Federal regulations.³ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, SSA authorizes each DDS to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable 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 regulations⁴ and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.⁵ 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*. 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-4513) to account for program disbursements and unliquidated obligations.

¹ (OCIG Comment – Footnotes 1 and 2 are new – my first recommendation would be to simply delete them – however, if you wish to keep them then please revise footnote 1 as follows)»The *Social Security Act* § 201 *et seq.*, 42 U.S.C. § 401 *et seq.*

² (OCIG Comment - See above comment)»The *Social Security Act* § 1601 *et seq.*, 42 U.S.C. § 1381 *et seq.*

³ 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

⁴ 31 C.F.R. Part 205.

⁵ Pub. L. No. 101-453.

The South Carolina Disability Determination Services (SC-DDS) performs work for the South Carolina Retirement System and the South Carolina State Comptroller General's Office. For FYs 2008 and 2009, this work averaged about 2.5 percent of all claims processed by the DDS.

SCOPE

To accomplish our objectives, we:

- Reviewed the administrative costs SC-DDS reported on its SSA-4513s for FYs 2008 and 2009.
- Reviewed applicable Federal laws, regulations, and pertinent parts of SSA's Program Operations Manual System and other criteria relevant to administrative costs claimed by SC-DDS and the drawdown of the SSA program appropriations.
- Interviewed staff at South Carolina Department of Vocational Rehabilitation and SC-DDS.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Reconciled State accounting records to the administrative costs reported by SC-DDS on the SSA-4513s for FYs 2008 and 2009.
- Examined the administrative expenditures (Personnel, Medical Service, and All Other Non-personnel costs) incurred and claimed by SC-DDS for FYs 2008 and 2009 on the SSA-4513s.
- Examined the indirect costs SC-DDS claimed for FYs 2008 and 2009 and the corresponding Cost Allocation Plans.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on the SSA-4513s.
- Determined whether the SC-DDS excluded the cost of non-SSA work from the costs it claimed on the SSA-4513s for FYs 2008 and 2009.
- 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 SSA-4513s. We also conducted detailed audit testing on selected data elements in the electronic data files.

We performed our audit at SC-DDS in Columbia and Greenville, South Carolina, and the Office of Audit in Atlanta, Georgia, from September 2010 through January 2011. We conducted this performance audit in accordance with generally accepted

government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

METHODOLOGY

Our sampling methodology encompassed the four general areas of costs as reported on the SSA-4513s: (1) Personnel, (2) Medical, (3) Indirect, and (4) All Other Non-personnel costs. We obtained computerized data from SC-DDS for FYs 2008 and 2009 for use in statistical sampling.

Personnel Costs

We randomly selected 1 of the 24 pay periods in FY 2009. We then selected a random sample of 50 employees for review and testing of the payroll records. 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 SC-DDS correctly paid employees and adequately documented these payments.

Medical Costs

We sampled 50 medical evidence of record and consultative examination records in FYs 2008 and 2009 using a proportional random sample. We also selected an additional 5 medical evidence of record and 5 consultative examination items in FY 2009 from the 37 medical cost accounting adjustments that resulted from the implementation of the new South Carolina State-wide accounting system. We determined whether sampled costs were properly reimbursed.

Indirect Costs

We reviewed Indirect costs in 2 quarters in both FYs 2008 and 2009. We tested all indirect cost pools included in the cost allocation plan. We ensured all indirect cost pools were allocated in accordance with the cost allocation plans for FYs 2008 and 2009. We determined the allocation method was reasonable for the type of expense allocated.

All Other Non-Personnel Costs

We stratified All Other Non-personnel costs into eight categories: (1) Contracted Costs, (2) Electronic Data Processing Maintenance, (3) Equipment Purchases and Rental, (4) Communications, (5) Applicant Travel, (6) DDS Travel, (7) Supplies, and (8) Miscellaneous. We selected a stratified random sample of 50 items from each FY

based on the percentage of costs in each category. For Occupancy costs, in FYs 2008 and 2009, we selected one monthly rental charge for each of the four SC-DDS office locations.

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.

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

South Carolina Disability Determination Services			
FISCAL YEARS (FY) 2008 and 2009 COMBINED			
REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$40,221,017	\$0	\$40,221,017
Medical	17,253,045	20,000	17,273,045
Indirect	5,147,471	0	5,147,471
All Other	7,310,056	3,267	7,313,323
Subtotals	\$69,931,589	\$23,267	\$69,954,856
Less Cost of Non-SSA Work	(\$1,663,838)	\$0	(\$1,663,838)
TOTALS	\$68,267,751	\$23,267	\$68,291,018
FY 2008			
REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$18,575,667	\$0	\$18,575,667
Medical	7,742,808	0	7,742,808
Indirect	2,587,232	0	2,587,232
All Other	\$3,536,458	0	3,536,458
Subtotals	\$32,442,165	\$0	\$32,442,165
Less Cost of Non-SSA Work	(\$822,461)	\$0	(\$822,461)
TOTALS	\$31,619,704	\$0	\$31,619,704
FY 2009			
REPORTING ITEMS	DISBURSEMENTS	UNLIQUIDATED OBLIGATIONS	TOTAL OBLIGATIONS
Personnel	\$21,645,350	\$0	\$21,645,350
Medical	9,510,237	20,000	9,530,237
Indirect	2,560,239	0	2,560,239
All Other	3,773,598	3,267	3,776,865
Subtotals	\$37,489,424	\$23,267	\$37,512,691
Less Cost of Non-SSA Work	(\$841,377)	\$0	(\$841,377)
TOTALS	\$36,648,047	\$23,267	\$36,671,314

Agency Comments

MEMORANDUM

Date: April 19, 2011 Refer to: S2D4
To: Inspector General (D BH 21419)
From: Regional Commissioner
Atlanta

Subject: Administrative Costs Claimed by the South Carolina Disability Determination Services (A-04-10-10178)--REPLY

Thank you for the opportunity to comment on the recommendations presented in the draft audit report on administrative costs claimed by the South Carolina Disability Determination Services (DDS) for Fiscal Years (FYs) 2008 and 2009. Overall, the audit was detailed and thorough and we agree that the DDS has adequate controls in place to ensure the security of personnel and property. In addition, we concur with the audit findings that disbursements made by the South Carolina Vocational Rehabilitation Department (SCVRD), the DDS's Parent Agency, were generally allowable and supported by the required documentation.

There were, however, several deficiencies found during the audit review in connection with personnel costs, which SCVRD has now corrected. Specifically, the three recommendations resulting from the audit findings, and our comments on each, are summarized below:

1. Ensure the South Carolina DDS revises the appropriate State Agency Report of Obligations for SSA Disability Programs (SSA-4513) to reduce \$983,502 in overstated personnel service costs claims in FY 2009.

The State of South Carolina implemented a new statewide accounting system (SCEIS) in November 2009, which resulted in some accounting adjustments as late as the 4th quarter of 2009. Due to start-up problems with the new SCEIS system, a duplicate reporting error of \$983,502 between personnel and indirect costs was mistakenly claimed by SCVRD. This erroneous adjustment had not been communicated with the DDS fiscal staff at the time, plus much of the new system was untested and unfamiliar at that time. The error has been corrected and a revised SSA-4513 for FY 2009 submitted in January 2011, removing the \$983,502 overstatement in obligations.

This erroneous charge should not occur again because the complexities inherent to the initial start-up of the SCEIS system, and the initial “push down” of data into the system, have now been fixed. Reconciliations in all accounting records were made current and duplications deleted. In addition, quarterly meetings between the DDS and SCVRD fiscal staff have now been implemented to ensure improved communications.

2. Continue with plans to rescind \$983,502 from the South Carolina DDS’s FY 2009 operating fund.

As noted above, an updated SSA-4513 was submitted in January 2011 to eliminate the duplicate \$983,502 charge in personnel costs, with the operating fund subsequently reduced due to the removal of this obligation. SSA issued a revised SSA-872 with corrected/reduced funding for FY 2009 to SCVRD, along with a letter (revision #15), on March 16, 2011.

3. Ensure that the South Carolina DDS revises the appropriate SSA-4513s to reduce \$2,774 in personnel costs claimed for incorrect wages in FYs 2009 and 2010.

In March 2009, a DDS employee requested a job duty change that resulted in a reduction in pay; however, SCVRD did not make the appropriate payroll adjustment until February 2010. This failure resulted in the individual receiving excess salary monies of \$1,765 in 2009 and \$1,009 in 2010. SCVRD has now submitted revised SSA-4513s for both FYs to reduce personnel costs for the overpaid amounts. SSA issued updated SSA-872s to SCVRD for FY 2009 and FY 2010 on April 5, 2011. Finally, controls are now in place to ensure that all payroll actions, include job changes resulting in reduced salaries, are coordinated and double-checked between the DDS and SCVRD.

Staff questions concerning this response may be directed to Barbara Hites in the Atlanta Region’s Center for Disability at 404-562-1419.

Michael W. Grochowski

South Carolina Vocational Rehabilitation
Department Comments



Disability Determination Services
South Carolina Vocational Rehabilitation Department

Providing quality disability determination services to South Carolinians in a responsive, timely and cost-effective manner.

Barbara G. Hollis, Commissioner

Disability Determination Services ■ P.O. Box 60 ■ West Columbia, SC 29171
Phone: (803) 896-6400 ■ Toll-free: (800) 868-5355 ■ Administrative Fax: (803) 896-6426

April 8, 2011

Mr. Patrick P. O'Carroll, Jr.
Inspector General
Office of Inspector General
Social Security Administration
Baltimore, MD. 21235-0001

Dear Mr. O'Carroll:

We have reviewed the OIG Auditor's report of fiscal years 2008 and 2009. You will find our attached response.

Thank you for your assistance. If you have any questions or we can be of further service, please contact Richard Elam at 803-896-6506 or by email: relam@scvrd.state.sc.us.

Sincerely,

Barbara G. Hollis
Commissioner

BGH/kn

pc: Richard Elam
Vicki Bowles
Maisy Babbitt
Thomas Paige
Shirley Jarrett
Ken Norris
Barbara Hites

**South Carolina Vocational Rehabilitation Department
Disability Determination Services
Audit Response for FY 2008 and 2009**

Finding #1: Excess Personnel Service Cost in FY 2009

It was determined that the SC-DDS incorrectly overstated personnel service costs of \$983,502 in FY 2009 because of a cost item duplication.

Response: In November 2009, the State of South Carolina implemented a new statewide accounting system (SCEIS). Due to the complexity of the new system, conversion required several DDS accounting record adjustments, some as late as 7th Quarter of FY 2009. Since the SCEIS system does not have an available Cost Allocation component, a posting of \$983,502 in Indirect Costs was made to 5th Quarter 2009 Personnel Costs. However, again due to the complexities in the SCEIS system, another adjustment was made in 7th Quarter 2009. The \$983,502 entry was mistakenly carried over, causing a reporting duplication error. A corrected SSA-4513 for the period of 7th and 8th Quarters FY 2009 was submitted on January 28, 2011. This confirms the agency's agreement with rescinding \$983,502 for SC DDS FY 2009 operating fund due to an overstatement of obligations.

Finding #2: Excess Personnel Service Cost in FY 2009

It was determined that \$1,765 in wages for one employee was overpaid.

Response: In March 2009, an employee requested and received approval for a change in job duties, which included a reduction in pay. However, the agency's HR Office did not appropriately record the adjustment in the payroll system until February 2010. The agency agrees the overpaid wages should not have been claimed for reimbursement and a revised SSA-4513 has been submitted, adjusting FY 2009 in the amount of \$1,765 and FY 2010 for \$1,009 for the overpaid wages.

Finding #3: Other Matter

Minor Physical Security Weaknesses

Response: SC-DDS has taken corrective actions to remedy the identified security weaknesses and will continue to work with SSA officials to resolve any remaining issues.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Kimberly A. Byrd, Director

Frank Nagy, Audit Manager

Acknowledgments

In addition to those named above:

Valerie Ledbetter, Senior Auditor

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