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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 NORTH CAROLINA DISABILITY  
DETERMINATION SERVICES**

**May 2012**

**A-04-11-01115**

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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: May 14, 2012

Refer To:

To: Michael W. Grochowski  
Regional Commissioner  
Atlanta

From: Inspector General

Subject: Administrative Costs Claimed by the North Carolina Disability Determination Services (A-04-11-01115)

### OBJECTIVE

For our audit of Federal Fiscal Year (FY) 2009 and 2010 administrative costs claimed by the North Carolina Disability Determination Services (NC-DDS), our objectives were to

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

### BACKGROUND

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 according to Federal law and 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, 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.

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<sup>1</sup> *Social Security Act* §§ 221 and 1614, 42 U.S.C. §§ 421 and 1382c; 20 C.F.R. §§ 404.1601, *et. seq.*, and 416.1001, *et. seq.*

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization for costs reported on a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513).

The NC-DDS, located in Raleigh, North Carolina, is a component of the North Carolina Division of Vocational Rehabilitation in the North Carolina Department of Health and Human Services (NC-DHHS). NC-DHHS' Controller's Office accounts for NC-DDS' disbursements, completes the Form SSA-4513, and prepares requests to transfer cash from the Department of the Treasury to the State Treasurer. In FYs 2009 and 2010, NC-DDS claimed costs of about \$55 and \$60 million, respectively. For additional background and our audit scope and methodology, see Appendix B.

## RESULTS OF REVIEW

Except for the items discussed in the following sections, we determined that costs NC-DDS claimed for the period October 1, 2008 through September 30, 2010 were allowable and properly allocated, and the system of internal controls over the accounting and reporting of administrative costs was effective. In addition, cumulative draw downs did not exceed cumulative disbursements during our audit period. Finally, our limited review of NC-DDS' controls over its physical security and personally identifiable information showed that controls were generally in place. (See Appendix C for costs reported on Forms SSA-4513.)

### OVERSTATED FUND OBLIGATIONS

NC-DDS overstated its FY 2009 obligated funds by \$1,043,063. NC-DDS reported \$1,275,255 of unliquidated funds in the occupancy cost category on its FY 2009 Form SSA-4513 for the period ended March 31, 2011.<sup>2</sup> At that time, NC-DDS was expecting to use the obligated funds to complete an office expansion project that began in FY 2010 (SSA authorized FY 2009 funds to pay for the project). However, we found NC-DDS had paid most of the costs for the expansion project before March 31, 2011.<sup>3</sup>

SSA's Program Operations Manual System (POMS) requires that States review the status of unliquidated obligations at least once a month and cancel funds it no longer needs.<sup>4</sup> After we discussed this issue with NC-DDS officials, they reviewed the unliquidated fund balance and determined the DDS had overestimated costs required to

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<sup>2</sup> A DDS' financial reporting period may extend beyond the fourth 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 fourth quarter of a FY, the DDS must continue reporting quarterly to SSA (on the Form SSA-4513) its cumulative costs, including adjustments to previously reported costs. POMS, DI 39506.201.A. and DI 39506.203.B. (Effective dates: March 12, 2002 - Present)

<sup>3</sup> NC-DDS moved into the new space in May 2011.

<sup>4</sup> POMS, DI 39506.203(A). (Effective dates: March 12, 2002 – Present.)

complete the expansion project. As such, NC-DDS did not need \$1,043,063 of the unliquidated funds. SSA officials informed us they would instruct NC-DDS to cancel these funds from NC-DDS' FY 2009 operating funds account.

## EXCESS OFFICE SPACE

As of November 2011, NC-DDS had excess office space. Specifically, NC-DDS had unused space that could accommodate 122 additional staff. The cost of the excess space was about \$249,000, annually. SSA will incur over \$1.9 million between December 1, 2011 and July 31, 2019 (the lease expiration date) for this unused space unless the Agency and NC-DDS take corrective steps.

In July 2009, NC-DDS requested SSA's approval to "build out" additional space at its office location to provide space for 140 additional new staff. SSA approved the project in September 2009. The project included a 16,800-square-foot expansion that cost about \$1.9 million (including costs for furniture, equipment, and data wiring). The expansion added space for 114 staff; increasing the office capacity from 632 to 746 staff. Rent for the additional space was about \$20,711 a month or \$248,535 a year (totals rounded).

In November 2010, about 2 weeks after the State of North Carolina amended<sup>5</sup> NC-DDS' office lease to add the additional space, SSA issued a national hiring freeze for DDS employees. At that time, NC-DDS had 675 permanent<sup>6</sup> staff. When NC-DDS moved into the new office space in May 2011, its permanent staff had decreased to 655. Because of attrition and SSA's hiring freeze, by the end November 2011, NC-DDS' staff had further decreased to 624, leaving NC-DDS with excess office space for 122 staff. In fact, the number of staff was eight less than the office capacity before the office expansion. See Table 1 for a comparison of the number of permanent staff to the office capacity for various months from July 2009 through November 2011.

**Table 1: Comparison of Number of Staff to Office Capacity**

Month and Year	Number of Full-Time Staff	Office Capacity (Number of Staff)	Number of Staff to Office Capacity
July 2009	553	632	79 less
September 2009	575	632	57 less
November 2010	675	632	43 more
May 2011	655	746	91 less
November 2011	624	746	122 less

<sup>5</sup> The State amended the lease on November 2, 2010. The amendment also extended the lease until July 31, 2019.

<sup>6</sup> During FYs 2010 and 2011, NC-DDS also used about 21 part-time, temporary employees per month.

If SSA's DDS hiring freeze continues, NC-DDS will pay about \$249,000 annually for excess office space—or approximately \$1.9 million from December 1, 2011 through the end of the lease on July 13, 2019. Given the current and anticipated Federal budget limitations, we believe SSA needs to determine how many new hires it expects to fund at the NC-DDS over the next several years. If the expected number of new hires will not increase to a level that justifies the additional office space, SSA should evaluate options to modify the lease and mitigate the continuing costs of this excess space.

### **OVERSTATED COSTS CHARGED TO SSA**

NC-DDS claimed overstated charges totaling \$7,692 on Forms SSA-4513: \$5,350 in FY 2009 and \$2,342 in FY 2010. NC-DDS claimed the costs for both FYs in the All Other Non-personnel cost category. NC-DDS received credits on its telephone and motor fleet costs, which it did not reflect in its Forms SSA-4513.

NC-DHHS' Controller's Office was aware of the credits and did not draw cash for these expenses. However, the Controller's office did not deduct the credits from costs reflected on its Forms SSA-4513. If these Forms are not corrected, SSA could reimburse the charges when NC-DDS closes its 2009 and 2010 FYs. SSA should instruct NC-DDS to revise the costs claimed on the Forms SSA-4513 to account for these credits.

### **GENERAL SECURITY CONTROLS**

NC-DDS did not have annual professional tests of the building's fire alarm and sprinkler systems.<sup>7</sup> The fire alarm system was last tested in February 2010, and the sprinkler system was last tested in September 2009. We believe NC-DDS should have the fire alarm and sprinkler systems professionally tested annually to ensure they are operating properly.

Additionally, we found water pipes above the NC-DDS' computer room. The computer room did not have an environmental control system to detect water leaks, as required by SSA POMS. To prevent damage to the computer system and possible loss of data, we believe NC-DDS should install a water (leakage) alarm system along the pipes or take other measures to mitigate the risk of water leaking from the pipes.

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<sup>7</sup> The Government Accountability Office's *Federal Information System Controls Audit Manual* (Chapter 3, Appendix III, SC-2.2) suggests that fire prevention and detection systems be tested periodically to ensure proper operation.

## CONCLUSION AND RECOMMENDATIONS

Overall, for FYs 2009 and 2010, NC-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. In addition, NC-DDS generally had adequate controls to protect claimant data and ensure the ongoing security of personnel and property.

However, we found NC-DDS no longer needed \$1,043,063 of unliquidated obligations; had excess office space costing about \$249,000 annually; and claimed overstated charges totaling \$7,692 on Forms SSA-4513. Additionally, NC-DDS did not have the fire alarm and sprinkler systems professionally tested annually and did not have a water (leakage) alarm system for the water pipes located above the computer room.

Accordingly, we recommend SSA:

1. Instruct NC-DDS to deobligate \$1,043,063 of unliquidated obligations for occupancy costs from its FY 2009 operating fund account.
2. Determine how many new hires it expects to fund at the NC-DDS over the next several years. If the expected number of new hires will not increase to a level justifying the additional office space, SSA should evaluate options to modify the lease and mitigate the continuing costs of this excess space.
3. Instruct NC-DDS to revise costs claimed on the Forms SSA-4513 to account for the State credits; \$5,350 in FY 2009 and \$2,342 in FY 2010.
4. Instruct NC-DDS to have the fire alarm and sprinkler systems professionally tested annually.
5. Instruct NC-DDS to install a water (leakage) alarm system along the pipes or take other measures to mitigate the risk of water leaking from the pipes and damaging the computer system.

## AGENCY COMMENTS

SSA and NC-DHHS' responses indicated they agreed with our recommendations. See Appendices D and E, respectively, for the full text of the 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 the Forms SSA-4513 - *State Agency Report of Obligations for SSA Disability Programs*

APPENDIX D – Agency Comments

APPENDIX E – North Carolina Department of Health and Human Services 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
NC-DDS	North Carolina Disability Determination Services
NC-DHHS	North Carolina Department of Health and Human Services
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code
 <u>Form</u>	
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>

### Background, Scope, and Methodology

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 determination services (DDS) in each State, Puerto Rico, Guam, the U.S. Virgin Islands, and the District of Columbia, perform disability determinations under both the DI and SSI programs. Such determinations are required to be performed in accordance with Federal law and underlying regulation.<sup>1</sup> 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 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 North Carolina Disability Determination Services (NC-DDS) reported on its Forms SSA-4513 for FYs 2009 and 2010. For the periods reviewed, we obtained evidence to evaluate

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<sup>1</sup> *Social Security Act* §§ 221 and 1614, 42 U.S.C. §§ 421 and 1382c; 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 (1990).

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.

- Reviewed applicable Federal laws, regulations, and pertinent parts of SSA's Program Operations Manual System and other instructions pertaining to administrative costs claimed by NC-DDS and draw down of the SSA funds.
- Interviewed staff at NC-DDS, the Controller's Office, the North Carolina Department of Health and Human Services, and SSA's Atlanta Regional Office.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Verified the reconciliation of State accounting records to the administrative costs reported by NC-DDS on Forms SSA-4513 for FYs 2009 and 2010.
- Examined the administrative expenditures (Personnel, Medical, and All Other Non-personnel costs) incurred and claimed by NC-DDS for FYs 2009 and 2010 on Forms SSA-4513.
- Examined the indirect costs NC-DDS claimed for FYs 2009 and 2010 and the corresponding Cost Allocation Plans.
- Compared the amount of SSA funds drawn to support program operations to the allowable expenditures reported on Forms SSA-4513.
- Determined whether NC-DDS excluded the cost of non-SSA work from the costs it claimed on Forms SSA-4513 for FYs 2009 and 2010.
- Conducted limited general control testing—which encompassed reviewing the physical access security in the NC-DDS.
- Reviewed policies and procedures related to personally identifiable information to determine whether the NC-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 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 NC-DDS in Raleigh, North Carolina, and the Office of Audit in Atlanta, Georgia, from March through December 2011. 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 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) Indirect Costs, and (4) All Other Non-personnel costs. We obtained computerized cost data from NC-DDS for FYs 2009 and 2010. We used the computerized data to select a statistical sample for our control tests.

### **Personnel Costs**

For our control tests, 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. Our control tests determined whether NC-DDS charged SSA correct payroll costs.

### **Medical Costs**

For our control tests, we sampled 100 medical evidence of record and consultative examination (50 items from each FY) using a proportional random sample. Our control tests determined whether NC-DDS charged SSA correct medical costs.

### **Indirect Costs**

For our control tests, we reviewed indirect costs for 1 month in both FYs 2009 and 2010. We tested selected indirect cost pools included in the cost allocation plan. Our control tests determined whether NC-DDS allocated the indirect cost pools in accordance with the cost allocation plans.

### **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. For our control tests, 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 costs). For Occupancy costs, we tested 100 percent of the rent portion of the costs charged in both FYs 2009 and 2010, and for FY 2009 we tested five charges for office furniture. Our control tests determined whether NC-DDS correctly charged SSA for All Other Non-personnel costs.

## **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) Internal Security, (3) Physical Access Controls, (4) Visitor Access Guidelines, (5) Office Safety, (6) Personally Identifiable Information, (7) Security Plan, and (8) Other Security Controls. We determined whether the general security controls the NC-DDS had in place were satisfactory.

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

<b>North Carolina Disability Determination Services</b>			
<b>FISCAL YEARS (FY) 2009 and 2010 COMBINED</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	\$60,448,197	-0-	\$60,448,197
Medical	\$37,607,337	\$2,090,731	\$39,698,068
Indirect	\$4,138,969	-0-	\$4,138,969
All Other	\$8,834,342	\$1,447,451	\$10,281,793
<b>TOTALS</b>	<b>\$111,028,845</b>	<b>\$3,538,182</b>	<b>\$114,567,027</b>
<b>FY 2009</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	\$28,330,071	-0-	\$28,330,071
Medical	\$17,584,572	\$804,047	\$18,388,619
Indirect	\$2,081,776	-0-	\$2,081,776
All Other	\$4,468,254	\$1,404,376	\$5,872,630
<b>TOTALS</b>	<b>\$52,464,673</b>	<b>\$2,208,423</b>	<b>\$54,673,096</b>
<b>FY 2010</b>			
<b>REPORTING ITEMS</b>	<b>DISBURSEMENTS</b>	<b>UNLIQUIDATED OBLIGATIONS</b>	<b>TOTAL OBLIGATIONS</b>
Personnel	\$32,118,126	-0-	\$32,118,126
Medical	\$20,022,765	\$1,286,684	\$21,309,449
Indirect	\$2,057,193	-0-	\$2,057,193
All Other	\$4,366,088	\$43,075	\$4,409,163
<b>TOTALS</b>	<b>\$58,564,172</b>	<b>\$1,329,759</b>	<b>\$59,893,931</b>

## Agency Comments

## MEMORANDUM

Date: March 23, 2012

To: Inspector General

From: Regional Commissioner  
Atlanta

Subject: Administrative Costs Claimed by the North Carolina Disability Determination Services (A-04-11-01115) – **REPLY**

Thank you for the opportunity to comment on the Office of the Inspector General final report "Administrative Costs Claimed by the North Carolina Disability Determination Services" (A-04-11-01115).

Our response to the five recommendations is as follows:

- 1. Instruct NC-DDS to deobligate \$1,043,063 of unliquidated obligation for occupancy costs from its FY 2009 operation fund account.**

The NC-DDS de-obligated (\$1,043,063) of unliquidated obligations for occupancy cost from the FY 2009 account in November 2011.

- 2. Determine how many new hires it expects to fund at the NC-DDS over the next several years. If the expected number of new hires will not increase to a level justifying the additional office space, SSA should evaluate options to modify the lease and mitigate the continuing costs of this excess space.**

As a result of the hiring freeze and ongoing DDS attrition the DDS was unable to utilize all the additional cubicle and office space provided in the 18,000 sq. ft. addition. The current lease, which includes the 18,000 sq. ft., was signed in November 2010 with an expiration date of July 31, 2019. The NC-DDS understands that the current square footage under lease has resulted in excess space, but the NC-DDS is liable under the conditions of the lease agreement for the term specified and still expects and intends to hire to fill all vacant positions once the federal hiring freeze is lifted.

- 3. Instruct NC-DDS to revise costs claimed on the Forms SSA-4513 to account for the State credits; \$5,350 in FY 2009 and \$2,342 in FY 2010.**

The NC-DDS Parent Agency's Controllers Office is responsible for these forms. The NC-DDS has contacted them to make the corrections and will advise when it has been completed.



**4. Instruct NC-DDS to have the fire alarm and sprinkler systems professionally tested annually.**

The NC-DDS sprinkler system inspection was done on June 1, 2011; however, the landlord did not make a copy of this inspection document available to the NC-DDS at the time of the OIG Audit. Recent Fire Alarm and Sprinkler Systems inspections have been completed. The Fire Alarm System was last inspected February 2012.

**5. Instruct NC-DDS to install a water (leakage) alarm system along the pipes or take other measures to mitigate the risk of water leaking from the pipes and damaging the computer system.**

The NC-DDS is currently exploring options with the Landlord regarding installation of Early Warning Water Leak Detection Equipment and Devices products in the ceiling tiles of the computer system room. The NC-DDS expects the bid, contract, and installation process to be completed by end of calendar year 2012.

We do not have any additional comments to make on this audit and corrective action has been taken on each item as shown in our response.

Staff questions should be referred to Sarah Henderson in the Atlanta Region's Center for Disability at 404-562-1397.

Amy Roberts for  
Michael W. Grochowski

## North Carolina Department of Health and Human Services Comments



**North Carolina Department of Health and Human Services**

2001 Mail Service Center • Raleigh, North Carolina 27699-2001  
Tel 919-855-4800 • Fax 919-715-4645

Beverly Eaves Perdue, Governor

Albert A. Delia, Acting Secretary

April 17, 2012

Michael W. Grochowski  
Regional Commissioner  
61 Forsyth St. SW Suite 23T29  
Atlanta, GA 30303-8907

Dear Mr. Grochowski:

We have reviewed your draft report presenting the results of the audit of the Administrative Costs Claimed by the North Carolina Disability Determination Services (A-04-11-01115). The following represents our response and corrective action plan to the Memo Dated February 17, 2012.

**AUDIT FINDINGS AND RECOMMENDATIONS**

**1. OVERSTATED FUND OBLIGATIONS**

NC-DDS overstated its FY 2009 obligated funds by \$1,043,063. NC-DDS reported \$1,275,255 of unliquidated funds in the occupancy cost category on its FY 2009 Form SSA-4513 for the period ended March 31, 2011. At that time, NC-DDS was expecting to use the obligated funds to complete an office expansion project that began in FY 2010 (SSA authorized FY 2009 funds to pay for the project). However, we found NC-DDS had paid most of the costs for the expansion project before March 31, 2011.

SSA POMS requires that States review the status of unliquidated obligations at least once a month and cancel funds it no longer needs. After we discussed this issue with NC-DDS officials, they reviewed the unliquidated fund balance and determined the DDS had overestimated costs required to complete the expansion project. As such, NC-DDS did not need \$1,043,063 of the unliquidated funds. SSA officials informed us they would instruct NC-DDS to cancel these funds from the NC-DDS FY 2009 operating fund account.

*Recommendation: Instruct NC DDS to deobligate \$1,043,063 of unliquidated obligation for occupancy costs from its FY 2009 operation fund account.*

***DHHS Response:*** The North Carolina Disability Determination Services (NC-DDS) deobligated \$1,043,063 of unliquidated obligations for occupancy costs from the FY 2009 operation fund account in November 2011.



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## 2. EXCESS OFFICE SPACE

As of November 2011, NC-DDS had excess office space. Specifically, NC-DDS had unused space that could accommodate 122 additional staff. The cost of the excess space was about \$249,000, annually. SSA will incur over \$1.9 million between December 1, 2011 and July 31, 2019 (the lease expiration date) for this unused space unless the Agency and NC-DDS take corrective steps.

In July 2009, NC-DDS requested SSA's approval to "build out" additional space at its office location to provide space for 140 additional new staff. SSA approved the project in September 2009. The project included a 16,800-square-foot expansion that cost about \$1.9 million (including costs for furniture, equipment, and data wiring). The expansion added space for 114 staff, increasing the office capacity from 632 to 746 staff. Rent for the additional space was about \$20,711 a month or \$248,535 annually (totals rounded).

In November 2010, about 2 weeks after the State of North Carolina amended NC-DDS' office lease to add the additional space, SSA issued a national hiring freeze for DDS employees. At that time, NC-DDS had 675 permanent staff. When NC-DDS moved into the new office space in May 2011, the number of permanent staff had decreased to 655. Because of attrition and SSA's hiring freeze, by the end November 2011, NC-DDS staff had further decreased to 624, leaving NC-DDS with excess office space for 122 staff. In fact, the number of staff was eight less than the office capacity before the office expansion.

If SSA's DDS hiring freeze continues, NC-DDS will pay about \$249,000 annually for excess office space—or approximately \$1.9 million from December 1, 2011 through the end of the lease. Given the current and anticipated Federal budget limitations, we believe SSA needs to determine how many new hires it expects to fund at the NC-DDS over the next several years. If the expected number of new hires will not increase to a level that justifies the additional office space, SSA should evaluate options to modify the lease and mitigate the continuing costs of this excess space.

*Recommendation: Determine how many new hires it expects to fund at the NC-DDS over the next several years. If the expected number of new hires will not increase to a level justifying the additional office space, SSA should evaluate options to modify the lease and mitigate the continuing costs of this excess space.*

**DHHS Response:** *As a result of the hiring freeze the North Carolina Disability Determination Services (NC-DDS) was unable to hire staff to utilize all of the additional cubicle/office space provided in the 18,000 sq. ft. addition. The current lease, which includes the 18,000 sq. ft. of additional space, was signed in November 2010 with an expiration date of July 31, 2019. The NC-DDS understands the current square footage under lease has resulted in excess space; however, there is liability under the lease agreement for the term specified. The NC-DDS intends to hire staff to fill all vacant positions once the federal hiring freeze is lifted.*

## 3. OVERSTATED COSTS CHARGED TO SSA

NC-DDS claimed overstated charges totaling \$7,692 on Forms SSA-4513: \$5,350 in FY 2009 and \$2,342 in FY 2010. NC-DDS claimed the costs for both FYs in the All Other Non-personnel cost category. NC-DDS received credits on its telephone and motor fleet costs, which it did not reflect in its Forms SSA-4513.

NC-DHHS' Controller's Office was aware of the credits and did not draw cash for these expenses. However, the Controller's office did not deduct the credits from costs reflected on its Forms SSA-

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4513. If these Forms are not corrected, SSA could reimburse the charges when NC-DDS closes its 2009 and 2010 FYs. SSA should instruct NC-DDS to revise the costs claimed on the Forms SSA-4513 to account for these credits.

*Recommendation: Instruct NC-DDS to revise costs claimed on the Forms SSA-4513 to account for the State credits; \$5,350 in FY 2009 and \$2,342 in FY 2010.*

**DHHS Response:** *The North Carolina Disability Determination Services (NC-DDS) overreported charges totaling \$7,692 on Forms SSA-4513: \$5,350 in FY 2009 and \$2,342 in FY 2010. NC-DDS reported the costs for both FYs in the All Other Non-Personnel cost category. NC-DDS received credits on telephone and motor fleet costs which were not reflected on the Forms SSA-4513. The North Carolina Department of Health and Human Services (NC DHHS) Office of the Controller General Accounting/Financial Management Section was aware of the credits and did not draw cash for these expenses; however, the NC DHHS Office of the Controller did not deduct the credits from costs reflected on Forms SSA-4513. Subsequently, the expenditures were reduced by the amount of the rebates. It is understood the manner in which the rebates were recorded did not accurately reflect the gross expenditures paid in the appropriate categories.*

*Corrections will be made to the March 2012 Forms SSA-4513 Report by June 30, 2012.*

#### 4. GENERAL SECURITY CONTROLS

NC-DDS did not have annual professional tests performed on the building's fire alarm and sprinkler systems. The last test of the fire alarm system was in February 2010, and the sprinkler system was last tested September 2009. We believe NC-DDS should have the fire alarm and sprinkler systems professionally tested annually to ensure they are operating properly.

Additionally, we found water pipes above the NC-DDS' computer room. The computer room did not have an environmental control system to detect water leaks, as required by SSA POMS. To prevent damage to the computer system and possible loss of data, we believe NC-DDS should install a water (leakage) alarm system along the pipes or take other measures to mitigate the risk of water leaking from the pipes.

*Recommendation: Instruct NC-DDS to have the fire alarm and sprinkler systems professionally tested annually. Instruct NC-DDS to install a water (leakage) alarm system along the pipes or take other measures to mitigate the risk of water leaking from the pipes and damaging the computer system.*

**DHHS Response:** *The North Carolina Disability Determination Services (NC-DDS) sprinkler system inspection was completed on June 1, 2011; however, the landlord did not make the inspection document available to the NC-DDS at the time of the OIG Audit. The Fire Alarm System was last inspected February 2012.*

*The NC-DDS, along with the Landlord of the facility, is currently exploring options for installation of Early Warning Water Leak Detection Equipment and Devices for the ceiling tiles of the computer room. The NC-DDS anticipates the bid, contract, and installation process to be completed by December 31, 2012.*

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## OIG Contacts and Staff Acknowledgments

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In addition to those named above:

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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-04-11-01115.

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## **Overview of the Office of the Inspector General**

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

### **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.

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

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Also, OCIG administers the Civil Monetary Penalty program.

### **Office of External Relations**

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

### **Office of Technology and Resource Management**

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.