



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.¹ 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.

¹ *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, 2011.² 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, 2011.³

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.⁴ After we discussed this issue with NC-DDS officials, they reviewed the unliquidated fund balance and determined the DDS had overestimated costs required to

² 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)

³ NC-DDS moved into the new space in May 2011.

⁴ 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 amended⁵ 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 permanent⁶ 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

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

⁶ 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.⁷ 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.

⁷ 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

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
 <i>Form</i>	
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.¹ 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 regulations² and intergovernmental agreements entered into by the Department of the Treasury and States under the *Cash Management Improvement Act of 1990*.³ 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

¹ *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.*

² 31 C.F.R. Part 205.

³ *Cash Management Improvement Act of 1990*, Pub. L. No. 101-453, 104 Stat. 1058 (1990).

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