
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED
BY THE ILLINOIS DISABILITY
DETERMINATION SERVICES**

May 2007 A-05-06-16118

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.

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 22, 2007

Refer To:

To: James F. Martin
Regional Commissioner
Chicago

From: Inspector General

Subject: Administrative Costs Claimed by the Illinois Disability Determination Services
(A-05-06-16118)

OBJECTIVE

Our objectives were to evaluate the Illinois Disability Determination Services (IL-DDS) internal controls over the accounting and reporting of administrative costs, determine whether costs claimed by the IL-DDS were allowable and properly allocated and funds were properly drawn, and assess limited areas of the general security control environment.

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the Social Security Act (Act), provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program, established under Title XVI of the Act, provides benefits to financially needy individuals who are aged, blind, and/or disabled.

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by Disability Determination Services (DDS) in each State, Puerto Rico and the District of Columbia. Such determinations are required to be performed in accordance with Federal law and underlying regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each

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

DDS is authorized to purchase medical examinations, X-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable reported expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments (ASAP) system to pay for program expenditures. Funds drawn down must comply with Federal regulations² and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act of 1990.³

An advance or reimbursement for costs under the program must comply with the Office of Management and Budget's 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 is required to submit a *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) to account for program disbursements and unliquidated obligations.⁴ The SSA-4513 reports expenditures and unliquidated obligations for personnel service costs, medical costs, indirect costs, and all other nonpersonnel costs.⁵

The Illinois Division of Rehabilitation Services is the IL-DDS' parent agency. The IL-DDS is located in Springfield, Illinois.

RESULTS OF REVIEW

Generally, the IL-DDS had effective controls over the accounting and reporting of administrative costs and the costs it claimed during our audit were allowable and properly allocated. In addition, we found IL-DDS' general security controls were generally effective. However, improvements are needed in the areas of cash management and occupancy.

CASH MANAGEMENT

As of September 30, 2006, excess funding authorization existed in the IL-DDS' FY 2004 and 2005 ASAP accounts in the amounts of \$319,996 and \$487,855, respectively. SSA establishes the IL-DDS' funding authority for each account within the ASAP system. Funds drawn through the ASAP system are restricted solely for program

² 31 C.F.R. § 205.1 *et seq.*

³ Cash Management Improvement Act of 1990, Pub. L. No. 101-453, 104 Stat. 1058, in part amending 31 U.S.C. §§ 3335, 6501 and 6503 (1990).

⁴ SSA, Program Operations Manual System (POMS), DI 39506.201 and 202. POMS, DI 39506.200 B.4 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."

⁵ SSA, POMS, DI 39506.202.

use and any unused funds are required to be returned to Treasury.⁶ SSA should reduce DDS funding authorizations when they are no longer needed to make disability determinations. Rescinding excess funding authorization decreases the risk of funds being spent on expenditures not related to the proper FY.

During the course of our audit, we informed the Chicago SSA Regional Office (RO) of the excess funding authorization. The RO subsequently reduced the IL-DDS' funding authority to the appropriate amount. The RO should monitor funding authorization to ensure it is reduced when the funds are no longer needed to make disability determinations.

OCCUPANCY

The IL-DDS charged costs to SSA totaling \$147,156 for unoccupied space.⁷ The IL-DDS has not occupied the space since January 2006 when personnel were moved to another office location. SSA policy states that, "Payment will be made only for periods of occupancy unless advance approval is received from the Regional Office (RO)."⁸ While the IL-DDS did not specifically request advance approval from the Chicago RO to pay rent on the unoccupied space, the RO was aware of the payments.

According to the IL-DDS, the lease on the unoccupied space is shared with another State agency. Furthermore, the lease cannot be terminated until the other State agency vacates the space. As such, IL-DDS continues to pay for the unoccupied space and charge the costs to SSA. The IL-DDS informed us that, in December 2006, actions were initiated to relocate the other State agency to new space and it hopes the action will be completed within 3 months. The RO should work with the IL-DDS to ensure the lease on the unoccupied space is expeditiously terminated.

CONCLUSION AND RECOMMENDATIONS

Generally, the IL-DDS had effective controls over the accounting and reporting of administrative costs and the costs it claimed during our audit were allowable and properly allocated. In addition, we found IL-DDS' general security controls were generally effective. However, improvements are needed in the areas of cash management and occupancy.

⁶ 42 U.S.C. § 421 (f).

⁷ Calculated by multiplying the monthly lease expense of \$12,263, by the number of months lapsed from February 2006 to January 2007, inclusive. Based on comments received from the Chicago Regional Office on our draft report (see Appendix C), SSA will continue to pay the costs for the unoccupied space until June 30, 2007. Therefore, SSA will have paid space costs totaling \$208,471 for space that was not occupied by the IL-DDS (February 2006 through June 2007).

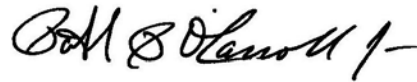
⁸ SSA, POMS, DI 39527.005 B.3.

We recommend the SSA Regional Commissioner:

1. Monitor funding authorization to ensure it is reduced when the funds are no longer needed to make disability determinations.
2. Work with the IL-DDS to ensure that the lease on the unoccupied space is expeditiously terminated.

AGENCY COMMENTS

In commenting on our draft report, SSA and the IL-DDS agreed with our recommendations. See Appendices C and D respectively, for the full text of SSA's and IL-DDS' comments.

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

Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Agency Comments

[APPENDIX D](#) – State Agency Comments

[APPENDIX E](#) – OIG Contacts and Staff Acknowledgments

Acronyms

Act	Social Security Act
ASAP	Automated Standard Application for Payments
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
GAO	Government Accountability Office
IL-DDS	Illinois Disability Determination Service
IL-DRS	Illinois Division of Rehabilitation Services
POMS	Program Operations Manual System
Pub. L.	Public Law
RO	Regional Office
SSA	Social Security Administration
SSA 4513	State Agency Report of Obligations for SSA Disability Programs
SSI	Supplemental Security Income
Treasury	Department of the Treasury
U.S.C.	United States Code

Scope and Methodology

SCOPE

To achieve our objective, we:

- Reviewed applicable Federal laws and regulations, pertinent parts of the Social Security Administration's (SSA) Program Operations Manual System and other criteria relevant to administrative costs claimed by the Illinois Disability Determination Services (IL-DDS), and the draw down of SSA program grant funds.
- Interviewed staff and officials at the Illinois Division of Rehabilitation Services (IL-DRS), IL-DDS, and the SSA Chicago Regional Office.
- Reviewed State policies and procedures related to personnel, medical services, and all other nonpersonnel costs.
- Evaluated and tested internal controls regarding accounting, financial reporting, and cash management activities.
- Reconciled State accounting records to the administrative costs reported by the IL-DDS on the *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) for Fiscal Years (FY) 2004 through 2005.
- Examined specific administrative expenditures (personnel, medical services, and all other nonpersonnel costs) incurred and claimed by the IL-DDS for FYs 2004 and 2005 on the SSA-4513. We used statistical sampling to select expenditures to test for support of the medical service and all other nonpersonnel costs.
- Examined the indirect costs claimed by the IL-DDS for FYs 2004 through 2005.
- Compared the amount of SSA funds drawn for support of program operations to the expenditures reported on the SSA-4513.
- Determined whether selected funds from cancelled warrants were properly returned to SSA.
- Determined if unliquidated obligations were properly supported.
- Reviewed IL-DDS general security controls related to physical security and continuity of operations.

We determined that the data provided by IL-DRS and IL-DDS used in our audit was sufficiently reliable to achieve our audit objectives. We assessed the reliability of the data by reconciling it with the costs claimed on the SSA-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We performed work at the IL-DRS, IL-DDS, the Kansas City, Missouri and Chicago, Illinois Offices of Audit. We conducted fieldwork from June 2006 through November 2006. The audit was conducted in accordance with generally accepted government auditing standards.

METHODOLOGY

SAMPLING METHODOLOGY

The sampling methodology encompassed the four general areas of costs reported on the SSA-4513 (1) personnel, (2) medical, (3) indirect, and (4) all other nonpersonnel costs. We obtained a data extract of all costs and the associated invoices for FYs 2004 through 2005 for use in statistical sampling. This was obtained from the accounting systems used in the preparation of the SSA-4513.

Personnel Costs

We randomly selected 1 pay period in the most recent year under review. We then selected a random sample of 50 regular employees for review and testing of the payroll records.

For medical consultant costs, we also selected 1 pay period in the most recent year under review. We then selected a random sample of 50 medical consultants for review and testing of the payroll records.

Medical Costs

We sampled 100 items (50 items from each FY) using a stratified random sample of medical cost based on the proportion of medical evidence of record and consultative examination costs to the total medical costs claimed.

Indirect Costs

IL-DDS indirect costs are computed by applying a federally approved rate to a cost base.¹ This methodology was approved by the Department of Health and Human Services, which is the Federal agency designated to negotiate and approve the indirect cost rate. As of September 30, 2006, the IL-DDS claimed indirect costs of \$2,345,891 for FY 2004 and \$2,459,681 for FY 2005. We reviewed the FY 2004 and 2005 indirect cost calculations to ensure the correct rate was applied.

All Other Nonpersonnel Costs

We sampled 100 items (50 expenditures from each FY) using a stratified random sample. The random sample was based on the proportion of costs in each of the cost categories to the total costs claimed.

¹ Direct salaries and wages including all fringe benefits.

Agency Comments



SOCIAL SECURITY

MEMORANDUM

Date: April 17, 2007

Refer To: S2D5G2

To: Inspector General

From: Regional Commissioner
Chicago

Subject: Draft Report of Administrative Costs Claimed by the Illinois Disability Determination Services
(Your Memorandum Dated March 23, 2007) -- REPLY

As requested, we have attached comments concerning the recommendations of the subject report (A-05-06-16118). We believe, as the draft report states, that the DDS has generally effective controls over the accounting and reporting of administrative costs and the costs it claims are allowable and properly allocated.

We appreciate the challenges and difficulties the audit team faced during this audit and want to acknowledge the efforts of your staff in conducting such a comprehensive review of DDS activities. We especially appreciated the open discussion of issues/findings both during the audit review and at the formal exit conference.

Questions about this memorandum may be directed to Jim Jamison, Financial Management Team Leader, at 312-575-4212.

/s/

James F. Martin

Attachment

cc: Deputy Commissioner for Operations
Deputy Commissioner for Budget, Finance, and Management

Administrative Costs Claimed by the Illinois Disability Determination Services (A-05-06-16118)

Recommendation 1 -- SSA should reduce DDS funding authorizations when they are no longer needed to make disability determinations. Rescinding excess funding authorization decreases the risk of funds being spent on expenditures not related to the proper FY.

Comment -- We concur with this finding. As indicated in the report, on January 11, 2007, we reduced the IL-DDS' funding authority to the appropriate amounts for the periods in question.

Recommendation 2 – SSA should work with the IL-DDS to ensure the lease on the unoccupied space is expeditiously terminated.

Comment -- We concur with this non-monetary audit finding which refers to space the DDS fiscal unit has vacated and that the DDS had initially intended to use for training purposes. However, as stated in the audit report, the lease on the unoccupied space is shared with another State agency and cannot be terminated until this other agency vacates the space. The DDS has initiated action to relocate the other State agency to new space. We now expect this action will be completed, and the current lease terminated, by the end of the State FY, which is June 30, 2007.

State Agency Comments



Rod R. Blagojevich, Governor

Illinois Department of Human Services

Caroi L. Adams, Ph.D., Secretary

100 South Grand Avenue, East • Springfield, Illinois 62762
401 South Clinton Street • Chicago, Illinois 60607

April 2, 2007

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

Dear Mr. O'Carroll:

Thank you for your draft report, *Administrative Costs Claimed by the Illinois Disability Determination Services* (A-05-06-16118). I have reviewed the report and offer the following comments.

1. Monitor funding authorization to ensure it is reduced when the funds are no longer needed to make disability determinations.

The IL-DDS does not set the funding authorization amount. This amount is set by the Chicago Social Security Administration's Regional Office. The Regional Office has been monitoring funding authorizations and reducing according to decrease the risk of funds being spent improperly.

2. Work with the IL-DDS to ensure that the lease on the unoccupied space is expeditiously terminated.

The IL-DDS has submitted all requested information to the Illinois Department of Central Management Services, who oversees the leases. The IL-DDS is currently working with CMS to expeditiously terminate the lease, and is keeping the Regional Office informed of the progress and anticipated termination date of the lease.

Please feel free to contact Steve Bush at 217-785-5375 if you have questions.

Sincerely,

Robert F. Kilbury, Ph.D.
Director
Division of Rehabilitation Services

cc: Ann Robert
Kris Smith

2007
APR 11 10:30 AM
2007

OIG Contacts and Staff Acknowledgments

OIG Contacts

Mark Bailey, Director, Chicago Audit Division, (816) 936-5591

Ken Bennett, Information Technology Specialist, (816) 936-5593

Acknowledgments

In addition to those named above:

Doug Kelly, Auditor-in-Charge

Sherman Doss, Auditor

For additional copies of this report, please visit our web site at www.ssa.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-05-06-16118.

DISTRIBUTION SCHEDULE

Commissioner of Social Security

Office of Management and Budget, Income Maintenance Branch

Chairman and Ranking Member, Committee on Ways and Means

Chief of Staff, Committee on Ways and Means

Chairman and Ranking Minority Member, Subcommittee on Social Security

Majority and Minority Staff Director, Subcommittee on Social Security

Chairman and Ranking Minority Member, Subcommittee on Human Resources

Chairman and Ranking Minority Member, Committee on Budget, House of Representatives

Chairman and Ranking Minority Member, Committee on Government Reform and Oversight

Chairman and Ranking Minority Member, Committee on Governmental Affairs

Chairman and Ranking Minority Member, Committee on Appropriations, House of Representatives

Chairman and Ranking Minority, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, House of Representatives

Chairman and Ranking Minority Member, Committee on Appropriations, U.S. Senate

Chairman and Ranking Minority Member, Subcommittee on Labor, Health and Human Services, Education and Related Agencies, Committee on Appropriations, U.S. Senate

Chairman and Ranking Minority Member, Committee on Finance

Chairman and Ranking Minority Member, Subcommittee on Social Security and Family Policy

Chairman and Ranking Minority Member, Senate Special Committee on Aging

Social Security Advisory Board

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises 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 and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity 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 OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG 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. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.