
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**INDIRECT COSTS CLAIMED
BY THE TEXAS DISABILITY
DETERMINATION SERVICES**

January 2009

A-06-08-18092

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: January 26, 2009

Refer To:

To: Ramona Schuenemeyer
Regional Commissioner
Dallas

From: Inspector General

Subject: Indirect Costs Claimed by the Texas Disability Determination Services (A-06-08-18092)

OBJECTIVE

Our objective was to determine whether the indirect costs claimed by the Texas Disability Determination Services (TX-DDS) for Federal Fiscal Years (FY) 2006 and 2007 were allowable and properly allocated.

BACKGROUND

The Disability Insurance (DI) program was established in 1954 under Title II of the *Social Security Act* (Act). The DI program provides benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted the Supplemental Security Income (SSI) program under Title XVI of the Act. The SSI program 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 claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by disability determination services (DDS) in each State in accordance with Federal regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization.² Allowable

¹ 20 Code of Federal Regulations (C.F.R.) part 404, subpart Q (April 2004), and part 416, subpart J (April 2004).

² 20 C.F.R. §§ 404.1626 and 416.1026.

expenditures include both direct and indirect costs.³ At the end of each quarter of the FY, each DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and unliquidated obligations. The Texas Department of Assistive and Rehabilitative Services (TX-DARS) was created in March 2004 and serves as the DDS' parent agency. Parent agencies often provide State-designated DDS administrative services, such as accounting and procurement. Costs associated with these services are referred to as indirect costs. Federally assisted programs bear their fair share of indirect costs except where restricted or prohibited by law.⁴ Federal cost standards state that expenditures may be allocated to a particular program if the goods or services are charged in accordance with the relative benefits received.⁵ TX-DARS allocates indirect costs to each of its four Divisions: Division for Rehabilitation Services (DRS), Division for Blind Services (DBS), Early Childhood Intervention (ECI), and TX-DDS.

Each year, TX-DARS prepares and submits an Indirect Cost Rate Proposal to the U.S. Department of Education (DOE), the cognizant Federal agency, for approval. The indirect cost rate proposal is prepared based on the actual costs incurred 2 FYs prior. For example, the FY 2007 proposal was prepared based on actual costs from FY 2005. The total actual indirect costs are allocated from various indirect cost pools based on a predetermined set of allocation bases, such as the percentage of accounting transactions processed, full-time equivalent (FTE) employees assigned, or "Other Operating Expenses" incurred. The total indirect costs allocated from all cost pools are divided by the total actual direct costs incurred during the same period, resulting in the indirect cost rate. Current year indirect costs are then determined by applying the approved rate multiplied by the current year's direct costs.

A contractor prepared TX-DARS' initial indirect cost proposal for FY 2006 based on actual financial data from FY 2004. Upon recommendation of the cognizant agency, TX-DARS simplified its methodology and presentation format for the FY 2007 proposal. The FY 2007 proposal was based on FY 2005 actual data, which was the first full year of TX-DARS' operation. We focused our review on the FY 2007 proposal since it was the first TX-DARS proposal based on a full year of its operations. SSA reimbursed \$12.5 million for FY 2006 indirect costs and \$11.8 million for FY 2007 indirect costs. TX-DARS' FY 2009 indirect cost rate proposal allocates approximately \$12.2 million in indirect costs to TX-DDS. See Appendix B for additional background information and Appendix C for our audit scope and methodology.

³ Direct costs can be identified with a particular cost objective (Office of Management and Budget [OMB] Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, § E.1). Indirect costs arise from activities common to multiple programs but not readily assignable to these programs without effort disproportionate to the results achieved (OMB Circular A-87, Attachment A, § F.1).

⁴ OMB Circular A-87, paragraph A.1.

⁵ OMB Circular A-87, Attachment A, § C.3.a.

RESULTS OF REVIEW

Indirect costs claimed for reimbursement under SSA’s disability programs were generally allowable and were paid in accordance with the cost rates approved by the cognizant agency. However, TX-DARS allocated indirect costs to TX-DDS in amounts that were not equitable in consideration of the relative benefit received. TX-DARS allocated costs to TX-DDS based on the percentage of accounting transactions processed, FTEs assigned, or “Other Operating Expenses” incurred when these allocation bases had little or no relation to the relative benefits received by TX-DDS. Use of this methodology resulted in cost allocations from TX-DARS cost pools in proportions significantly greater than TX-DDS’ share of TX-DARS’ budget.

Based on discussions with key TX-DARS personnel and our review of available information, the TX-DARS allocation methodology resulted in approximately \$2.2 million in excessive indirect costs charged to TX-DDS in FY 2007. As long as TX-DARS continues to use a similar indirect cost allocation methodology, excessive indirect cost allocations will continue to be allocated to TX-DDS. We estimate use of the current indirect cost allocation methodology will result in approximately \$3.3 million in excessive indirect cost allocations to TX-DDS in FY 2009.

TX-DARS’ INDIRECT COST ALLOCATION METHODOLOGY

TX-DARS used three primary methods of allocating indirect costs to TX-DDS from its various cost pools. Based on the type of costs in a specific cost pool, it is reasonable to use a method for one cost pool that is different from other cost pools. However, the method chosen for a specific cost pool should make a reasonable allocation of the costs in that cost pool relative to the benefits received by the programs.

The three primary methods TX-DARS used to allocate indirect costs to its Divisions were based on percentage of accounting transactions processed, FTEs assigned, or “Other Operating Expenses” incurred. The chart below provides the percentage of the budget as well as the applicable TX-DARS allocation percentages for FY 2005 (used to calculate the indirect cost rate applied in FY 2007).

FY 2005 Percentage of Budget, Accounting Transactions, FTEs And “Other Operating Expenses” by TX-DARS Division				
Division	Budget	Accounting Transactions	FTEs	“Other Operating Expenses”
DRS	40.7%	37.4%	47.0%	25.0%
DBS	9.9%	7.8%	18.9%	15.1%
ECI	29.7%	1.8%	1.3%	3.2%
DDS	19.7%	53.0%	32.8%	56.7%
Total	100.0%	100.0%	100.0%	100.0%

Use of the three allocation methodologies outlined in the chart above resulted in cost allocations that were significantly greater than TX-DDS' share of TX-DARS' budget. Specifically, TX-DDS represented about 20 percent of the \$514 million TX-DARS budget. However, TX-DDS was allocated between 33 and 57 percent of the indirect costs from the indirect cost pools. In contrast, ECI represented about 30 percent of TX-DARS' budget but received allocations of only 3.2 percent or less from TX-DARS' indirect cost pools.

Allocations Based on Number of Accounting Transactions

In calculating the FY 2007 indirect cost rate, TX-DARS allocated about \$1.6 million of its FY 2005 Accounting Department costs to TX-DDS based on the percentage of accounting transactions processed. Primarily as the result of a large number of low-dollar fees paid for medical record reviews, approximately 53 percent of the transactions processed by the TX-DARS Accounting Department in FY 2005 were TX-DDS transactions. Therefore, TX-DARS allocated approximately 53 percent of its Accounting Department costs to TX-DDS. Allocation of these costs based on a percentage of accounting transactions processed appeared equitable considering the relative benefits received by TX-DDS.

However, TX-DARS also used the percent of accounting transactions processed to allocate \$2.1 million in costs associated with the Comptroller of Public Accounts, the Chief Financial Officer (CFO), Internal Audit, and State Auditor cost pools. Allocation of these cost pools to TX-DDS based on the percentage of accounting transactions processed resulted in SSA paying more than its fair share of indirect costs.

- The Comptroller of Public Accounts cost pool consists of costs passed to TX-DARS by the Comptroller of Public Accounts through the Statewide Cost Plan. The Comptroller is the chief steward of the State's finances, acting as tax collector, chief accountant, chief revenue estimator and treasurer for all of the State government. We found nothing to indicate the number of accounting transactions processed by TX-DDS affected the Comptroller of Public Accounts' operating expenses. Therefore, allocating these costs based on accounting transaction percentage was not justified. Instead, allocating these costs based on budget percentage was justified and would more closely align the sharing of these costs with the benefits received.
- The CFO cost pool includes the costs incurred to operate the CFO's office. The CFO manages the TX-DARS budget and financial operations and is responsible for establishing and monitoring policies and procedures for budget, accounting, cash management, contract management, grants management, and financial reporting. The CFO stated that his office represented all four TX-DARS Divisions equally, and its operating costs were not driven by the number of accounting transactions processed by TX-DARS Divisions. Because the number of accounting transactions processed by TX-DDS has no correlation with the CFO's operating costs, allocation of the CFO cost pool based on the percentage of accounting transactions is not

equitable. Allocation of these costs based on budget percentage or an equal sharing of these costs among the four TX-DARS Divisions can be justified and would more closely align the sharing of these costs in accordance with the relative benefits received. TX-DDS' fair share of these costs should not exceed 25 percent.

- A review of audit reports published by both the Internal Audit Department and the State Auditor's Office during FYs 2006 and 2007 indicated that neither department had issued any audit reports specifically related to TX-DDS. This clearly demonstrates that the level of support these departments provide TX-DDS has no relationship to the number of accounting transactions processed by TX-DDS. It also demonstrates that allocating these costs on the basis of accounting transactions results in a disproportional cost allocation to TX-DDS. Indirect costs from these departments should be allocated on the basis of budget percentage.

Excess Indirect Costs Allocated to TX-DDS on the Basis of Number of Accounting Transactions				
Cost Pool	Actual Allocation Based on Accounting Transactions	Proposed Allocation Basis	Revised TX-DDS Allocation	Difference
Comptroller of Public Accounts	\$1,132,425	Budget	\$420,628	\$711,797
Chief Financial Officer	808,254	Equal	\$392,344	\$415,910
Internal Audit	275,037	Budget	105,377	169,660
State Auditor	174,456	Budget	66,840	107,616
Totals	\$2,390,172		\$985,189	\$1,404,983

Use of the accounting transactions to allocate these cost pools resulted in SSA paying approximately \$1.4 million more than its fair share of indirect costs in FY 2007. This methodology will continue to result in excessive indirect cost allocations to TX-DDS in FY 2009 and later FYs if the methodology is not changed.

Allocations Based on FTE Employees

In calculating the FY 2007 indirect cost rate, TX-DARS allocated about \$2.4 million of its FY 2005 Lump Sum Termination Pay, Post Retirement Health Benefits, Media Services, Records Management, Library,⁶ Facilities Leasing and Management, and Warehouse costs to TX-DDS based on the percentage of assigned FTEs.

Approximately 32 percent of TX-DARS employees are assigned to TX-DDS. As a result, TX-DARS allocated approximately 32 percent of these costs to TX-DDS. Allocation of these costs based on FTEs appeared equitable considering the relative benefits TX-DDS received.

⁶ Based on diminished need for, as well as increased availability of, these services from other sources, effective for FY 2009 indirect cost proposal, Library costs will no longer be allocated to TX-DDS.

However, TX-DARS also used the FTE percentage to allocate \$2.6 million in costs associated with operating 11 additional cost pools to TX-DDS. Use of this allocation methodology resulted in SSA paying more than its fair share of indirect costs.

- The Director of Operations, Center for Program Coordination, Commissioner, Deputy Commissioner, and Chief Operating Officer cost pools provide direction, coordination, and administration to all TX-DARS activities. Review of available documentation and discussions with TX-DARS staff indicated the level of support provided to TX-DDS did not depend on the number of employees assigned to TX-DDS. Instead, these departments represented TX-DARS, as a whole, and supported its Divisions equally. Therefore, allocating these costs to TX-DDS on the basis of FTEs was not equitable and resulted in TX-DDS bearing more than its fair share of costs.
- The Budget section provides financial information and technical assistance to effectively expend available funds, project funding needs, and maximize available resources. Responsibilities include preparing the annual operating budget; monitoring budget coding, budget revisions, and budget transactions for compliance; reviewing fiscal implications, proposed rules, and cost estimates; and reporting on a variety of financial information. Instead of allocating Budget Department costs based on the percentage of the budget expended in each of its four Divisions, TX-DARS allocated the costs based on the number of assigned FTEs. However, the number of FTEs assigned to TX-DDS bears no relationship to the level of support provided by the Budget section. Allocating Budget section expenses to TX-DDS based on FTEs instead of budget percentage was not equitable. Allocation of these costs based on budget percentage would align the sharing of these costs in accordance with the relative benefits received.
- For five additional cost pools, we found no relationship between the number of FTEs and the actual support provided to TX-DDS. We found nothing to indicate the level of support provided by these cost pools varied in relation to the number of employees in each of TX-DARS' four Divisions. Instead, these pools appeared to represent TX-DARS, as a whole, and support its Divisions equally.
 - The Legal Services section interprets and drafts laws, regulations, and legal opinions; coordinates agency litigation with the Office of the Attorney General; prosecutes and adjudicates administrative enforcement matters; reviews contracts; and liaisons with the Secretary of State for Texas Register filings of rules and meeting notices.
 - The Program Reporting and Analysis section is responsible for providing information and analysis to assist TX-DARS management in reporting program performance to Federal and State agencies, the State legislature, and interested stakeholders; and in evaluating of the effectiveness of TX-DARS operations.

- The Center for DARS Policy develops, evaluates, disseminates, and provides assistance regarding program administrative policy and procedures and ensures that Department policies comply with Federal and State policies.
- The Center for Consumer and External Affairs provides a central contact for public and stakeholder input and the acquisition of information on TX-DARS policies, procedures, and services. The Center coordinates the referral of inquiries to the appropriate TX-DARS Division, serves as the liaison for governmental affairs, tracks legislation affecting TX-DARS programs, develops public awareness activities and maintains stakeholder relations.
- Attorney General costs include legal costs billed by the State Attorney General's Office to TX-DARS on the Statewide Cost Allocation Plan.

Excess Indirect Costs Allocated to TX-DDS on the Basis of Number of FTE Employees				
Cost Pool	Actual Allocation Based on FTEs	Proposed Allocation Basis	Revised TX-DDS Allocation	Difference
Director of Operations	\$732,795	Equal	\$578,298	\$154,497
Program Coordination	503,495	Equal	397,341	106,154
Budget	346,105	Budget	215,121	130,984
Legal Services	304,642	Equal	240,413	64,229
Program Reporting and Analysis	297,320	Equal	234,635	62,685
Commissioner	123,645	Equal	97,577	26,068
DARS Policy	95,586	Equal	75,433	20,153
Deputy Commissioner	61,243	Equal	48,331	12,912
Chief Operating Officer	60,538	Equal	47,774	12,764
Consumer and External Affairs	49,414	Equal	38,996	10,418
Attorney General	27,294	Equal	21,539	5,755
Totals	\$2,602,077		\$1,995,458	\$606,619

Based on our review of information provided by TX-DARS, we did not find a relationship between the number of FTEs assigned to TX-DDS and the level of support provided by these cost pools. Use of FTE percentage to allocate these cost pools resulted in SSA paying approximately \$607,000 more than its fair share of indirect costs in FY 2007. This methodology will continue to result in excessive indirect cost allocations to TX-DDS in FY 2009 and later FYs if the methodology is not changed.

Allocations Based on “Other Operating Expenses”

In calculating the FY 2007 indirect cost rate, TX-DARS allocated about \$500,000 of its FY 2005 Buyer Support Services and Historically Underutilized Business Services (HUBS) costs to TX-DDS based on the percentage of total “Other Operating

Expenses.” Types of expenses TX-DARS classifies as “Other Operating Expenses” include postage, contracted temporary services, furnishings and equipment, and building maintenance and repair. Using this methodology, TX-DARS allocated more than 50 percent of the costs associated with operating Buyer Support Services and HUBS to TX-DDS.

Excess Indirect Costs Allocated to TX-DDS on the Basis of Percentage of “Other Operating Expenses”				
Cost Pool	Actual Allocation Based on “Other Operating Expenses”	Proposed Allocation Basis	Revised TX-DDS Allocation	Difference
Buyer Support Services	\$448,481	Budget	\$251,911	\$196,570
HUBS	52,941	Budget	29,737	23,204
Totals	\$501,422		\$281,648	\$219,774

Based on the information provided by TX-DARS, we found nothing to indicate the use of “Other Operating Expenses” as an allocation basis had any relation to the level of support these cost pools provided TX-DDS. Therefore, allocation of these cost pools based on the percentage of “Other Operating Expenses” was not equitable and resulted in SSA paying approximately \$220,000 more than its fair share of indirect costs in FY 2007. This methodology will continue to result in excessive indirect cost allocations to TX-DDS in FY 2009 and later FYs if the methodology is not changed. Allocation of these costs based on the budget percentage can be justified and would more closely align the sharing of these costs in accordance with the relative benefits received.

TX-DARS FY 2009 INDIRECT COST PROPOSAL

Based on our review of FY 2007 indirect costs, TX-DARS’ cost allocation methodology resulted in TX-DDS bearing more than its fair share of TX-DARS’ indirect costs. Review of TX-DARS FY 2009 indirect cost proposal indicated TX-DARS continued to use the accounting transaction percentage, FTE percentage, and “Other Operating Expenses” percentage as the bases for allocating indirect costs to TX-DDS. As shown in the table below, we estimate that application of this allocation methodology will result in approximately \$3.3 million in excessive indirect cost allocations to TX-DDS in FY 2009. If the methodology is not changed, it could result in approximately \$9.8 million in excessive costs over the next 3 FYs.

Excess Indirect Costs Allocated to TX-DDS Based on TX-DARS FY 2009 Indirect Cost Proposal					
Cost Pool	FY 2009 Allocation Basis	FY 2009 Expected Allocation	Proposed Allocation Basis	Revised Allocation	Difference
Chief Financial Officer ⁷	Transactions	\$2,515,232	Trans/Equal	\$2,084,469	\$430,763
Comptroller of Public Accounts	Transactions	948,352	Budget	378,444	569,909
Internal Audit	Transactions	332,552	Budget	132,706	199,846
State Auditor	Transactions	56,657	Budget	22,609	34,048
HHSC Enterprise Oversight	FTEs	1,465,745	Budget	882,079	583,666
Commissioner ⁸	FTEs	1,064,146	Equal	770,080	294,066
Budget	FTEs	461,874	Budget	277,954	183,920
Staff and Operations Support ⁹	FTEs	431,484	Equal	312,248	119,236
Program Reporting and Analysis	FTEs	293,554	Equal	212,433	81,121
Chief Operating Officer	FTEs	260,942	Equal	188,834	72,109
Legal Services	FTEs	226,943	Equal	164,230	62,713
Program Support	FTEs	91,610	Equal	66,295	25,316
Buyer Support Services	Other Op Exp	747,599	Budget	313,634	433,965
Facilities Management	Other Op Exp	263,740	FTEs	183,860	79,880
Contract Monitoring and Risk	Other Op Exp	229,988	FTEs	160,330	69,658
HUBS	Other Op Exp	39,923	Budget	16,571	23,352
FY 2009 Totals		\$9,430,341		\$6,166,776	\$3,263,568

⁷ Combines Chief Financial Officer and Accounting Department cost pools that appeared on the FY 2007 indirect cost proposal.

⁸ Combines Commissioner, Deputy Commissioner, Center for Policy & Innovation, Center for Consumer and External Affairs, and Center for Program Coordination cost pools that appeared on the FY 2007 indirect cost proposal.

⁹ Combines Staff Operations, Support Services, and Central Buyer cost pools that appeared on the FY 2007 indirect cost proposal.

CONCLUSION AND RECOMMENDATION

Indirect costs claimed for reimbursement under SSA's disability programs were generally allowable and paid in accordance with the cost rates approved by the cognizant agency. However, TX-DARS allocated indirect costs to TX-DDS in amounts that were not equitable in consideration of the relative benefit received. TX-DARS allocated costs to TX-DDS based on the number of accounting transactions processed, number of FTE employees assigned, or percentage of "Other Operating Expenses" incurred when these allocation bases had little or no relation to the level of support the cost pools actually provided to TX-DDS. Use of the current TX-DARS allocation methodology resulted in approximately \$2.2 million in excessive indirect cost allocations to TX-DDS in FY 2007, and we estimate that continued use of the current methodology will result in approximately \$3.3 million in excessive indirect cost allocations in FY 2009. Further, if the methodology is not changed, it could result in approximately \$9.8 million in excessive costs over the next 3 FYs.

We recommend SSA ensure TX-DDS bears no more than its fair share of indirect costs by working with TX-DARS and DOE to develop and implement a methodology that allocates indirect costs in accordance with the relative benefits received by TX-DDS.

AGENCY COMMENTS

SSA agreed with our recommendation and will work with TX-DARS and DOE to implement the necessary changes. See Appendix D for the full text of SSA's comments.

TX-DARS COMMENTS

TX-DARS agreed with the premise of our recommendation and stated it would work with the cognizant agency to allocate indirect costs in accordance with the relative benefits received. TX-DARS also provided several observations indicating either agreement or disagreement with specific proposed changes to allocation bases discussed in the report and stated its belief that percentage of budget is not a legitimate basis for allocating indirect costs. TX-DARS noted that implementation of all the allocation changes discussed in the report would result in a shifting of costs from SSA to the DOE, which would reduce funds available for DOE programs. TX-DARS believes this would result in removal of fewer SSI claimants from SSA rolls because fewer DOE dollars would be available to put Texans with disabilities to work. See Appendix E for the full text of TX-DARS' comments.

OIG RESPONSE

We appreciate the comments from SSA and TX-DARS. We are encouraged that both parties indicated willingness to develop and implement a methodology that will better allocate indirect costs to SSA in accordance with the relative benefits received.

TX-DARS stated it found no evidence to support use of “budget” as an allocation basis. TX-DARS cited experts who stated they had never seen budget percentage used as a legitimate allocation basis and said the OMB Circular A-87 Implementation Guide shows no such basis. We point out the Guide also states the bases listed are “suggestions only” and that “Any method of distribution can be used which will produce an equitable distribution of cost.” We continue to believe that percentage of budget is a method of allocation that would produce more equitable distributions of various TX-DARS indirect cost pools (for example, Budget, Internal Audit, State Auditor) than methods currently employed.

TX-DARS stated that implementation of the proposed allocation basis changes would shift costs from SSA to DOE resulting in a decrease in DOE funds currently used for various client services. However, we reiterate that federally assisted programs are required to bear their fair share of indirect costs. Implementing the changes suggested in the report will help ensure SSA pays only its fair share of indirect costs and no longer subsidizes other State and/or Federal programs.



Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Background

[APPENDIX C](#) – Scope and Methodology

[APPENDIX D](#) – Agency Comments

[APPENDIX E](#) – Texas Department of Assistive and Rehabilitative Services Comments

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

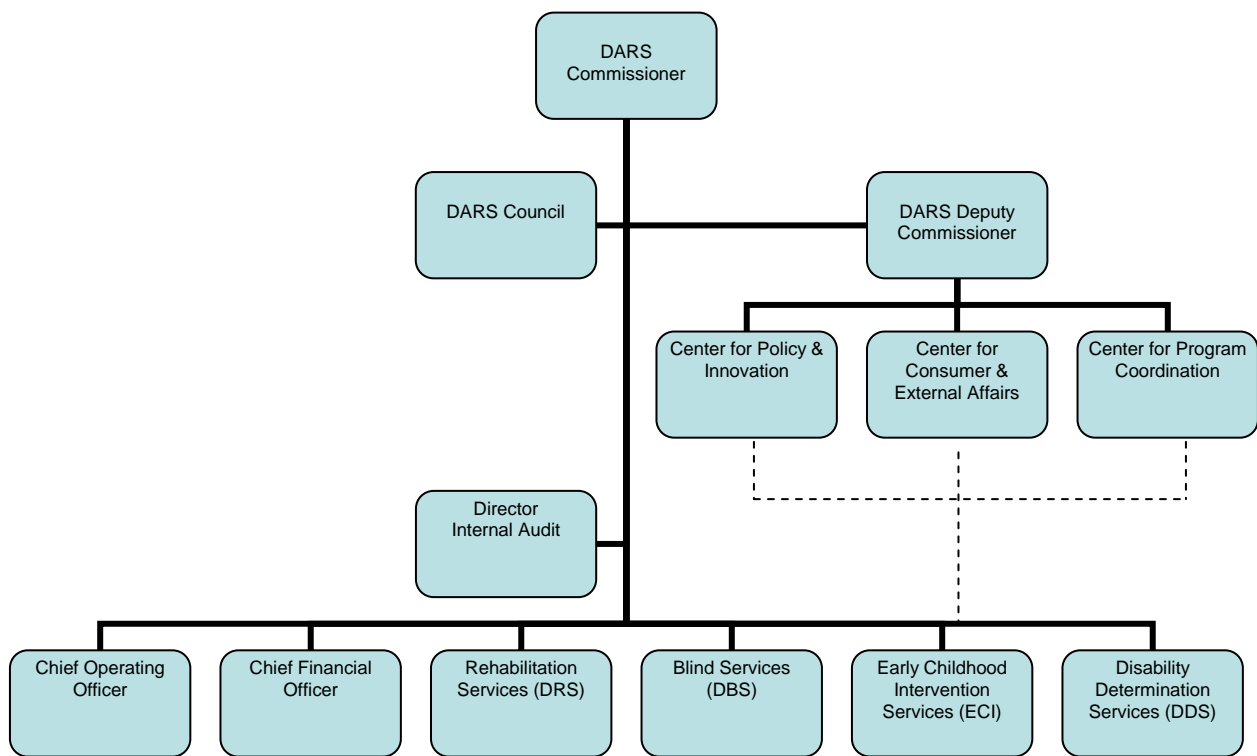
Acronyms

ACT	<i>Social Security Act</i>
CFO	Chief Financial Officer
C.F.R.	Code of Federal Regulations
DBS	Division for Blind Services
DDS	Disability Determination Services
DI	Disability Insurance
DOE	Department of Education
DRS	Division for Rehabilitation Services
ECI	Early Childhood Intervention
FTE	Full-Time Equivalent
FY	Fiscal Year
HUBS	Historically Underutilized Business Services
OIG	Office of the Inspector General
OMB	Office of Management and Budget
SSA	Social Security Administration
SSI	Supplemental Security Income
TX-DARS	Texas Department of Assistive and Rehabilitative Services
TX-DDS	Texas Disability Determination Services
<u>Form</u>	
SSA-4513	State Agency Report of Obligations for SSA Disability Programs

Background

The Texas Department of Assistive and Rehabilitative Services (TX-DARS) allocates indirect costs to each of its four Divisions: Division for Rehabilitation Services, Division for Blind Services, Early Childhood Intervention, and Disability Determination Services, all headed by the Commissioner of TX-DARS. The following chart provides an overview of TX-DARS' organizational structure.

TX-DARS Organization Chart



Scope and Methodology

We reviewed the indirect costs reported by the Texas Department of Assistive and Rehabilitative Services (TX-DARS) and its component, the Texas Disability Determination Services (TX-DDS), on its *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for Federal Fiscal Years (FY) 2006 and 2007. For the items tested, we reviewed TX-DARS' and TX-DDS' compliance with applicable laws and regulations over the allowability of indirect costs.

To accomplish our objective, we:

- Reviewed applicable sections of Office of Management and Budget Circular A-87, the Code of Federal Regulations, the Social Security Administration's (SSA) Program Operations Manual System, and TX-DDS' Cost Allocation Plan.
- Interviewed employees from TX-DARS and TX-DDS.
- Examined the indirect costs incurred and claimed by TX-DARS.
- Reviewed the supporting documentation used to formulate the three allocation bases for distributing costs to TX-DDS.
- Reviewed actual indirect costs, by appropriation, for FY 2005, further examining selected high-dollar line items. The FY 2005 data were used in formulating the indirect cost rate for the FY 2007 cost proposal.
- Reconciled costs reported by TX-DARS on its Form SSA-4513 for FYs 2006 and 2007 to the related accounting records.
- Reviewed work papers and source documentation used in preparing the indirect cost proposal for FYs 2006 and 2007.

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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We performed our audit from February through September 2008 at TX-DDS and TX-DARS in Austin, Texas, and at the SSA regional office in Dallas, Texas.

Agency Comments

Subject: Wednesday, December 24, 2008
Dallas Reply: Signed Draft Report (A-06-08-18092) - Indirect Costs Claimed by the Texas Disability Determination Services

Pat,

We appreciate the opportunity to comment on the Signed Draft Report (A-06-08-18092) - Indirect Costs Claimed by the Texas Disability Determination Services. We would like to thank the OIG Audit staff in the Dallas Region for the excellent manner in which they were able to organize and perform this audit. We appreciate their efforts to keep all parties informed of their progress during the course of the audit.

Our response to the recommendation contained in the narrative report is as follows:

OIG Recommendation: We recommend the SSA ensure TX-DDS bears no more than its fair share of indirect costs by working with TX-DARS and the Department of Education to develop and implement a methodology that allocates indirect costs in accordance with the relative benefits received by TX-DDS.

Response: We concur with this recommendation. We will work with Texas-DARS and the Department of Education to implement the necessary changes.

If members of your staff have any questions, please have them call Irving Wilkerson at 214-767-3126 in Management and Operations Support, Center for Disability.

Ramona

**Texas Department of Assistive and
Rehabilitative Services Comments**



Terrell I. Murphy
Commissioner

January 9, 2009

Patrick P. O'Carroll, Jr.
Inspector General
Social Security Administration
6401 Security Blvd.
Baltimore, MD 21235-0001

Dear Mr. O'Carroll:

We are in receipt of your letter and audit report dated December 10, 2008. Here are our written comments, as requested.

As you know the U.S. Department of Education (DOE) is the cognizant agency for the Department of Assistive and Rehabilitative Services (DARS) indirect cost plan. We will work with DOE per your recommendation.

All of the recommendations suggested in the Audit Report, if accepted, would result in a shifting of costs from the Social Security Administration (SSA) to DOE.

Background

We consulted with two experts in the field of cost allocation – Jeff Broussard and Joel Nolan. Jeff Broussard is the head of the Texas Health and Human Services Commission's (THHSC) Cost Allocation Division. The THHSC Enterprise is a 50,000 employee organization with five separate agencies and an annual budget of \$28 billion. Mr. Broussard has been in this field for over 30 years.

Joel Nolan recently joined MGT as the Director of Costing Studies, after serving for over 20 years as a Vice President with the Financial Services Division of MAXIMUS, Inc. He is experienced in all aspects of development, negotiation, and application of cost principles and strategies in the public sector. He has 38 years of experience, of which more than 25 years have been directly involved with federal, state, and local government programs and organizations. His knowledge of government programs and organizations provides extensive insight into the most appropriate financial representation and application of cost principles, the recovery of costs associated with federally funded programs, and the proper method of costing governmental services.

Mr. Nolan has been responsible for a variety of engagements throughout his career, including conducting user fee studies, preparing and negotiating cost allocation plans, preparing indirect cost rate proposals, developing internal service billing rates, performing cost of services studies and revenue maximization studies, and providing audit resolution assistance. He has also served in a financial management capacity in his various roles while employed in state and local

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government. Mr. Nolan is a Certified Government Financial Manager and is also a member of the Association of Government Accountants and the Government Financial Officers Association.

Finally, we consulted the Office of Management and Budget (OMB) Circular A87, which is the guide for all cost reporting of all federal agencies (see Attachment A).

Observations

Observation #1

We evaluated your recommendations to those functions like Commissioner, Deputy Commissioner, Chief Financial Officer (see list below) to be changed from their current DOE approved basis to an "equal" basis, and we agree.

Indirect Costs Allocated to TX-DDS on the Basis of Number of Accounting Transactions		
Cost Pool	Current Basis	OIG Proposed Basis
Chief Financial Officer	Accounting Transactions	Equal
Director of Operations	FTEs	Equal
Program Coordination	FTEs	Equal
Budget	FTEs	Equal
Legal Services	FTEs	Equal
Program Reporting and Analysis	FTEs	Equal
Commissioner	FTEs	Equal
DARS Policy	FTEs	Equal
Deputy Commissioner	FTEs	Equal
Chief Operating Officer	FTEs	Equal
Consumer and External Affairs	FTEs	Equal
Attorney General	FTEs	Equal

Observation #2

On page 4 of your report, you reference the allocation basis for the Comptroller of Public Accounts' Cost Pool (CPACP). The CPACP is charged to all Texas agencies on the basis of USAS (Uniforms Statewide Accounting System) transactions. We consulted with the CPA and the contractor (Elise d'Auteuil of Management of America – see Attachment B) who develops these billings to all state agencies and they have confirmed this fact. DARS allocates these same costs on this same basis – the number of USAS transactions. Thus, DARS allocates the CPACP in the same manner that it is billed. Any other allocation basis would violate the cost principles of OMB Circular A87 (see Attachment A).

Observation #3

We found no evidence to support the use of "budget" as an allocation basis. We consulted two experts – Mr. Broussard and Mr. Nolan – and neither had ever seen this used as a legitimate basis. Also, Section 4.6.2 "Suggested Bases for Cost Distribution" in the OMB Circular A87 Implementation Guide shows no such basis (see Attachment A).

Therefore, we recommend that any changes related to "budget" be removed and that the current DOE approved bases continue.

Observation #4

DOE grants are fixed and these costs would not go away. If the recommendations were accepted, the increase in indirect costs to the DOE grants would result in a decrease in direct costs – mainly client services – to the DOE programs. This could cause new waiting lists or increases in existing waiting lists. Texans with disabilities would get fewer services. The impact to SSA could be that fewer SSI and SSDI claimants would be removed from the SSA rolls if there are fewer DOE dollars available to put Texans with disabilities to work. Therefore, while SSA may get some savings in indirect costs, the offset might be higher costs for claimants who might otherwise be removed from the Social Security Trust Fund.

Observation #5

We agree that "Other Operating Expenses" is not a legitimate allocation basis and we agree and recommend that these be changed to "FTE's"

Indirect Costs Allocated to TX-DDS Based on TX-DARS FY 2009 Indirect Cost Proposal		
Cost Pool	FY 2009 Allocation Basis	Proposed Allocation Basis
Buyer Support Services	Other OP Exp	FTEs
Facilities Management	Other OP Exp	FTEs
Contract Monitoring and Risk	Other OP Exp	FTEs
HUBS	Other OP Exp	FTEs

Thank you for the opportunity to provide feedback to this audit report.

Sincerely,

Bill Wheeler
DARS Chief Financial Officer

cc: Mary Gougisha, Indirect Cost Group Director, U.S. Department of Education
Terry Murphy, DARS Commissioner
Debra Wanser, DARS Deputy Commissioner
David McKay, DARS Financial Services Senior Business Analyst
Greta Rymal, Director of Enterprise Budget Fiscal Policy, HHSC
Jeff Broussard, Cost Allocation Program Specialist, HHSC

Attachment A

**A GUIDE FOR
STATE, LOCAL AND INDIAN TRIBAL
GOVERNMENTS**

**COST PRINCIPLES AND PROCEDURES FOR
DEVELOPING COST ALLOCATION PLANS AND
INDIRECT COST RATES FOR AGREEMENTS
WITH THE FEDERAL GOVERNMENT**

**IMPLEMENTATION GUIDE FOR
OFFICE OF MANAGEMENT AND BUDGET
CIRCULAR A-87**

ASMB C-10

Attachment A

4.6.2 Suggested Bases for Cost Distribution

Listed below are suggested bases for distributing joint costs of central-type services to local government departments or agencies and to projects and programs utilizing these services. The bases are suggestions only, and should not be used if they are not suitable for the particular services involved. Any method of distribution can be used which will produce an equitable distribution of cost. In selecting one method over another, consideration should be given to the additional effort required to achieve a greater degree of accuracy.

<i>Type of Service</i>	<i>Suggested Bases for Allocation</i>
Accounting	Number of transactions processed
Auditing	Direct audit hours
Budgeting	Direct hours of identifiable services of employees of central budget
Buildings lease management	Number of leases
Data processing	System usage
Disbursing service	Number of checks or warrants issued
Employees retirement system administration	Number of employees contributing
Insurance management service	Dollar value of insurance premiums
Legal services	Direct hours
Mail and messenger service	Number of documents handled or employees served
Motor pool costs, including automotive management	Miles driven and/or days used
Office machines and equipment maintenance repairs	Direct hours
Office space use and related costs (heat, light, janitorial services, etc.)	Square feet of space occupied
Organization and management services	Direct hours; Square feet
Payroll services	Number of employees
Personnel administration	Number of employees
Printing and reproduction	Direct hours, job basis, pages printed, etc.
Procurement service	Number of transactions processed
Local telephone	Number of telephone instruments
Health services	Number of employees
Fidelity bonding program	Employees subject to bond or penalty amounts

Attachment B

From: Elise d'Auteuil [mailto:Elise_dAuteuil@mgtamer.com]
Sent: Thursday, October 23, 2008 7:30 PM
To: McKay, David; elise_dauteuil@mgtofamerica.com
Cc: Wheeler, Bill; Dawson, James; Lavallee, Anita; Joel Nolan
Subject: RE: Process for Compiling SWCAP document

Hi David,

We have used total accounting transactions to allocate the Fund Accounting, USAS and Treasury Accounting functions of the Comptroller's Office.

We have used a modified accounting transaction count (that excludes retirement warrants and child support warrants) to allocate the Claims section of the Comptroller's Office.

We would take the position that the services provided by the Comptroller are more extensive than a "disbursing service" and that it is, in fact, an accounting service. ASMB C10 recommends accounting transactions as the allocation method for accounting services.

The Dallas based Division of Cost Allocation (that reviews and approves this SWCAP) scrutinized the allocation of the Comptroller's cost several years ago when they happened to be focused on increasing costs/allocations going to the Title IVD program. The current methods of identifying cost pools and using transactions counts as the allocation statistic resulted from that round of negotiation with DCA.

This wouldn't be the first time we have found a grantor agency taking exception to what DCA has approved, but we are constrained by what DCA will approve.

Please let me know if you need additional information.

Elise d'Auteuil
MGT of America, Inc.

From: McKay, David [mailto:David.McKay@dars.state.tx.us]
Sent: Thursday, October 23, 2008 2:35 PM
To: elise_dauteuil@mgtofamerica.com
Cc: Wheeler, Bill; Dawson, James; Lavallee, Anita
Subject: Process for Compiling SWCAP document

Elise,
The SSA OIG does not agree with "transactions" as the allocation basis we use for the Comptroller's costs.

Page 66 of ASMB C-10 suggests "Number of ...warrants issued" as the basis for allocating the cost of "Disbursing service". Our position is that each warrant is a transaction.

I'd appreciate your suggestion(s) / rationale / agreement re this issue.

Thank you very much.
david mckay

OIG Contacts and Staff Acknowledgments

OIG Contacts

Ron Gunia, Director, Dallas Audit Division, (214) 767-6620

Jason Arrington, Audit Manager, (214) 767-1321

Acknowledgments

In addition to those named above:

Warren Wasson, Senior Auditor

Clara Soto, Senior Auditor

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Social Security Advisory Board

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.