
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

April 2012 A-07-11-11184

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: April 3, 2012

Refer To:

To: Carolyn L. Simmons
Regional Commissioner
Kansas City

From: Inspector General

Subject: Administrative Costs Claimed by the Iowa Disability Determination Services
(A-07-11-11184)

OBJECTIVE

Our objectives were to evaluate the Iowa Disability Determination Services' (IA-DDS) internal controls over the accounting and reporting of administrative costs, determine whether costs IA-DDS claimed were allowable and properly allocated and funds were properly drawn, and assess limited areas of the general security controls environment. Our audit included the administrative costs claimed by IA-DDS during Federal Fiscal Years (FY) 2009 and 2010.

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 payments 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 determination services (DDS) in each State or other responsible jurisdiction perform determinations under both DI and SSI. Such determinations must 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 adequate evidence is available to support its determinations. To assist in making proper disability

¹ Act §§ 221 and 1614, 42 U.S.C. §§ 421 and 1382c. See also 20 C.F.R. §§ 404.1601 et seq. and 416.1001 et seq.

determinations, each 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 Payment (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 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 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, Medical, Indirect, and All Other Non-personnel costs.⁵

The Iowa Vocational Rehabilitation Services (IVRS) is IA-DDS' parent agency. IVRS is a component in the Iowa Department of Education. IA-DDS is located in Des Moines, Iowa.

RESULTS OF REVIEW

In general, IA-DDS' internal controls over the accounting and reporting of administrative costs were adequate to ensure costs claimed were allowable and properly allocated and funds were properly drawn. However, we found that SSA was charged unallowable indirect costs totaling \$85,556 because of an error in the indirect cost rate calculation. We also found IA-DDS disclosed disability claimants' personally identifiable information (PII) on forms where it was not necessary. Regarding general security controls, we found IA-DDS did not have water leakage alarms in its computer server room.

² 31 C.F.R. § 205.1 *et seq.*

³ Pub. L. No. 101-453, 104 Stat. 1058, in part amending 31 U.S.C. §§ 3335, 6501, and 6503

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 been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received."

⁵ SSA, POMS, DI 39506.201 and 202.

Indirect Costs

SSA was charged unallowable indirect costs totaling \$85,556. This occurred because the State FY 2010 indirect cost rate, approved by the United States Department of Education (ED) and used by IVRS to charge indirect costs to SSA, was incorrectly calculated.⁶

The State FY 2010 indirect cost rate IVRS used to charge indirect costs to SSA and other Federal and State agencies was incorrect because it improperly excluded an adjustment that was required to correct previous unallowable indirect costs.

Specifically, during State FYs 2002 through 2006, the indirect cost rates used to charge indirect costs to SSA and other Federal and State agencies included unallowable costs totaling \$351,164. The \$351,164 in unallowable costs resulted from IVRS claiming incentive payments under Iowa's Early-Out Retirement Plan without ED's approval. Therefore, ED retroactively determined the costs were unallowable and should not have been included in the indirect cost rate calculations for State FYs 2002 through 2006.

ED and IVRS previously agreed to correct the unallowable indirect costs charged to SSA and other Federal and State agencies by reducing the indirect costs used to calculate the State FY 2008 and 2010 indirect cost rates by \$175,582, respectively (totaling the \$351,164).

We found that the indirect costs ED used to calculate the indirect cost rate for State FY 2008 were properly reduced by \$175,582. However, when calculating the State FY 2010 indirect cost rate, ED did not reduce the indirect costs by the \$175,582. Accordingly, SSA was charged unallowable indirect costs totaling \$85,556.⁷

Since the indirect cost rate agreement affects other Federal agencies, it is not practical for IVRS to repay the unallowable indirect costs to SSA when other Federal agencies will have their repayment captured through the indirect cost adjustment. So, to properly exclude the unallowable indirect costs for all Federal agencies affected, ED plans to reduce the indirect costs used in the rate calculation for State FY 2014 to account for

⁶ Each State FY, ED negotiates and approves the indirect cost rate used by IVRS to charge indirect costs to Federal agencies including SSA. IVRS computes the indirect costs charged to SSA each State FY by applying the ED approved indirect cost rate to an approved cost base.

⁷ The State FY begins on July 1 and ends on June 30. Therefore, State FY 2010 encompassed portions of Federal FY 2009 (July 1 through September 30, 2009) and Federal FY 2010 (October 1, 2009 through July 30, 2010). Therefore, the \$85,556 in unallowable indirect costs to SSA included \$20,468 in unallowable charges to SSA in Federal FY 2009 and \$65,088 in unallowable charges to SSA in Federal FY 2010.

the remaining \$175,582 in unallowable indirect costs. In doing so, the indirect costs charged to SSA in Federal FYs 2013 and 2014 will be reduced by approximately \$85,556.⁸

We recommend the Regional Commissioner ensure the \$175,582 adjustment for unallowable costs is included in the State FY 2014 indirect cost rate approved by ED.

Personally Identifiable Information

IA-DDS unnecessarily included disability claimants' PII on correspondence with third parties. IA-DDS processes over 34,000 disability determinations each FY. During the disability determination process, IA-DDS mails interpretation service forms and claimant travel invoices. We found that these documents contained PII including name; address; date of birth; telephone number; and, most notably, Social Security number (SSN).

Although we have no reason to believe this information was misused, this practice could result in abuse of claimants' PII. Federal guidance dictates that agencies should reduce their holdings of all PII to the minimum necessary to properly perform a documented agency function.⁹ Agencies must also review their use of SSNs in agency systems and programs to identify instances in which collection or use of the SSN is superfluous.¹⁰ On October 5, 2007, SSA's Office of Disability Determinations informed regional offices that DDSs should review their processes to eliminate the use of the SSNs on correspondence, where possible.

Given the prevalence of identity theft, we see no reason for PII to be included on such documents as interpretation service forms and travel invoices. We recommend the SSA Regional Commissioner remind the IA-DDS to limit the disclosure of PII in third-party correspondence, where possible.

⁸ We report an approximate reduction in indirect costs of \$85,556. The actual reduction in indirect costs could be more or less depending on SSA's indirect cost base amount used to compute the actual indirect costs for FYs 2013 and 2014. SSA will know by July 2013 if the approved rate includes the adjustment. However, SSA will not know the total amount of the reduction in indirect costs until after the end of State FY 2014 because SSA's indirect cost base will not be known until July 2014. SSA's indirect cost base consists of the IA-DDS' costs claimed on the SSA-4513 less equipment purchases and medical costs so, the base can fluctuate each FY with changes in costs. However, we have no reason to believe that IA-DDS' costs will materially fluctuate by July 2014.

⁹ OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*, Attachment 1 § B.1.a (page 2) indicates a few simple and cost-effective steps to reduce risks related to a data breach of PII, such as limiting access to only those individuals who must have such access. Access is defined as the ability or opportunity to gain knowledge of PII.

¹⁰ OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*, Attachment 1 § B.2.a.

Water Leakage Alarms in Computer Server Room

IA-DDS' computer server room did not have the water leakage alarms required by SSA's instructions. The lack of water leakage alarms could result in damage to IA-DDS' computer server equipment. We recommend the Regional Commissioner instruct IA-DDS to install water leakage alarms in the computer server room to meet SSA's requirement.

CONCLUSION AND RECOMMENDATIONS

In general, IA-DDS' internal controls over the accounting and reporting of administrative costs were adequate to ensure costs claimed were allowable and properly allocated and funds were properly drawn. However, we found that SSA was charged unallowable indirect costs totaling \$85,556 because of an error in the indirect cost rate calculation. We also found IA-DDS disclosed disability claimants' PII on forms where it was not necessary. Regarding general security controls, we found IA-DDS did not have water leakage alarms in the computer server room. Accordingly, we recommend the SSA Regional Commissioner:

1. Ensure the \$175,582 adjustment for unallowable costs is included in the State FY 2014 indirect cost rate approved by ED.
2. Remind the IA-DDS to limit the disclosure of PII in third-party correspondence, where possible.
3. Instruct IA-DDS to install water leakage alarms in the computer server room to meet SSA's requirement.

AGENCY COMMENTS

SSA and IVRS agreed with our recommendations. See Appendices C and D.



Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Agency Comments

[APPENDIX D](#) – Iowa Vocational Rehabilitation Services Comments

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Appendix A

Acronyms

Act	<i>Social Security Act</i>
ASAP	Automated Standard Application for Payment
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
ED	United States Department of Education
FY	Fiscal Year
IA-DDS	Iowa Disability Determination Services
IVRS	Iowa Vocational Rehabilitation Services
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PII	Personally Identifiable Information
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
SSI	Supplemental Security Income
SSN	Social Security Number
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 Iowa Disability Determination Services (IA-DDS) and the drawdown of SSA program appropriations.
- Interviewed staff at the Iowa Vocational Rehabilitation Services (IVRS) and IA-DDS.
- Reviewed State policies and procedures related to Personnel, Medical, Indirect, and All Other Non-personnel costs.
- Evaluated, tested, and documented internal controls regarding accounting, financial reporting, and cash management activities.
- Reconciled State accounting records to the administrative costs reported by IA-DDS on the *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for Federal Fiscal Years (FY) 2009 and 2010.
- Examined specific administrative expenditures (Personnel, Medical, and All Other Non-personnel costs) incurred and claimed by IA-DDS for FYs 2009 and 2010 on the Form SSA-4513. We used statistical sampling to select expenditures to test for support of the Medical and All Other Non-personnel costs, as discussed in the Methodology section.
- Determined whether IA-DDS was meeting SSA's DDS Office Space Allocation standards.
- Examined the indirect costs claimed by IA-DDS for FYs 2009 and 2010.
- Reviewed the State FY 2010 indirect cost rate proposal to ensure compliance and fairness in the formulation of the indirect cost rate.
- Compared the amount of SSA funds drawn to support program operations to the expenditures reported on the Form SSA-4513.
- Determined whether selected funds from canceled warrants were properly returned to SSA.

- Determined whether unliquidated obligations were properly supported.
- Reviewed IA-DDS' general security controls.
- Reviewed IA-DDS' adherence to Office of Management and Budget guidance related to safeguarding personally identifiable information.

We determined the data provided by IVRS and IA-DDS used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the data by reconciling them with the costs claimed on the Form SSA-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We conducted fieldwork from May through November 2011.

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 Non-personnel costs. We obtained a data extract of all costs and the associated invoices for FYs 2009 and 2010 for use in statistical sampling. We obtained this from the accounting systems used in preparing the Form SSA-4513.

Personnel Costs

We reconciled IA-DDS' personnel costs to the Form SSA-4513. We then randomly selected 1 pay period, with a pay period end date of July 8, 2010, for further review. We then selected a random sample of 50 regular employees and all 34 medical consultants for additional review and testing of their payroll records for the pay period ended July 8, 2010.

Medical Costs

We sampled 100 items (50 items each from of FYs 2009 and 2010) using a stratified random sample of medical costs based on the proportion of medical evidence of record and consultative examination costs to the total medical costs claimed.

Indirect Costs

IA-DDS indirect costs were computed by applying a federally approved rate to a cost base.¹ This methodology was approved by the United States Department of Education, which is the Federal agency designated to negotiate and approve the indirect cost rate. On the Forms SSA-4513, IA-DDS claimed indirect costs of \$1,456,835 for FY 2009 and has \$1,652,871 in indirect costs obligated for FY 2010. We reviewed IVRS' State FY 2010 indirect cost proposal to ensure it was fair and equitable. We compared the indirect cost proposal to the associated rate for State FY 2010. We reviewed the FY 2009 and 2010 indirect cost calculations to ensure the correct rate was applied.

All Other Non-personnel Costs

We sampled 105 items (53 expenditures from FY 2009 and 52 from FY 2010) 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 For FY 2010, the indirect cost calculation was Personnel costs plus All Other Non-personnel cost minus Equipment Purchases times the indirect cost rate plus direct charges for DDS staff that retired under the State Employee Retirement Incentive Program.

Agency Comments

March 08, 2012
Signed Draft Report (A-07-11-11184) - Kansas City Response

To: Inspector General

From: Regional Commissioner
Kansas City

Subject: Administrative Costs Claimed by the Iowa Disability Determination Services
(A-07-11-11184) - Response

We appreciate the opportunity to present the regional views concerning the facts and reasonableness of the recommendations.

1. Ensure the \$175,582 adjustment for unallowable costs is included in the State FY 2014 indirect cost rate approved by ED.

We agree with the finding and the Region will ensure the adjustment is made in the State FY 2014 indirect cost rate agreement. We believe, however, that there is a misstatement in Footnote #8 under this finding. The statement should be revised to reflect SSA will know by July 2013 if the approved rate includes the adjustment, but that SSA will not know the total amount of the reduction in indirect costs until after the end of State FY 2014 (June 2014).

2. Remind the IA-DDS to limit the disclosure of PII in third-party correspondence, where possible.

We agree with the finding and the Region will work with the DDS to ensure appropriate actions are taken to limit disclosure of PII on DDS correspondence.

3. Instruct IA-DDS to install water leakage alarms in the computer server room to meet SSA's requirement.

We agree with the finding and the Region is working with the DDS to identify devices to meet this need and with Office of Disability Determinations to request funding.

If you have questions, please contact me at 816-936-5700. Staff with questions may contact Janet Shivers, Director, Center for Disability Programs, at 816-936-5742.

/s/
Carolyn L. Simmons

Appendix D

Iowa Vocational Rehabilitation Services Comments

March 13, 2012

Signed Draft Report (A-07-11-11184)

Dear Mr. Bailey,

Iowa Vocational Rehabilitation Services has no additional comments to make in reference to the draft report, Administrative Costs Claimed by the Iowa Disability Determination Services (A-07-11-11184). We accept the recommendations.

Thank you.

David Mitchell, MS, CRC
IVRS Administrator

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Appendix E

OIG Contacts and Staff Acknowledgments

OIG Contacts

Mark Bailey, Director, Kansas City Audit Division

Kenneth Bennett, IT Specialist, Kansas City Audit Division

Acknowledgments

In addition to those named above:

Nicholas Moore, Auditor-in-Charge

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