



Office *of the* Inspector General  
SOCIAL SECURITY ADMINISTRATION

*Audit Report*

Administrative Costs Claimed by the  
Missouri Disability Determination  
Services

*A-07-13-23112 | May 2014*



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: May 13, 2014

Refer To:

To: Ken Powell  
Regional Commissioner  
Kansas City

From: Inspector General

Subject: Administrative Costs Claimed by the Missouri Disability Determination Services  
(A-07-13-23112)

The attached final report presents the results of our audit. Our objectives were to (1) evaluate the disability determination services' (DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs the DDS claimed were allowable and properly allocated and funds were properly drawn, and (3) assess limited areas of the general security controls environment.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

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.

Attachment

cc:

Ann Robert, Acting Associate Commissioner for Disability Determinations  
Carla Krabbe, Associate Commissioner for Financial Policy and Operations  
Gary S. Hatcher, Senior Advisor for Records Management and Audit Liaison Staff  
Dr. Jeanne Loyd, Assistant Commissioner, Department of Elementary and Secondary Education,  
Office of Adult Learning and Rehabilitation Services  
John Broom, Administrator, Missouri DDS

# Administrative Costs Claimed by the Missouri Disability Determination Services

## A-07-13-23112



May 2014

Office of Audit Report Summary

### Objective

To (1) evaluate the Missouri Disability Determination Services' (MO-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs MO-DDS claimed were allowable and properly allocated and funds were properly drawn, and (3) 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. DDSs are required to perform such determinations in accordance with Federal law and regulations. 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 evidence to supplement evidence obtained from the claimants' physicians or other treating sources. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization.

### Our Findings

MO-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 identified weaknesses in MO-DDS' equipment inventory records and general security controls. Specifically, MO-DDS did not maintain an accurate inventory of SSA-purchased computer equipment. In addition, MO-DDS' security plans did not have all essential information required by SSA's policy. Finally, MO-DDS' central office did not have adequate fire detection and suppression devices, and the computer rooms at the central office and three district offices did not have alarms for environmental controls.

### Our Recommendations

We recommend the SSA Regional Commissioner:

1. Verify MO-DDS' new inventory system complies with SSA instructions.
2. Instruct MO-DDS to timely complete security plans that meet SSA requirements.
3. Work with MO-DDS to ensure adequate fire detection and suppression devices are in place and tested annually at MO-DDS' central office.
4. Instruct MO-DDS to install alarms for environmental controls in the computer rooms of MO-DDS offices to meet SSA's requirement.

SSA agreed with our recommendations.

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## ABBREVIATIONS

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
Form SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
FY	Fiscal Year
MO-DDS	Missouri Disability Determination Services
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code

## OBJECTIVE

Our objectives were to evaluate the Missouri Disability Determination Services' (MO-DDS) internal controls over the accounting and reporting of administrative costs, determine whether costs MO-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 MO-DDS claimed during Federal Fiscal Years (FY) 2011 and 2012.

## BACKGROUND

Disability determination services (DDS) in each State or other responsible jurisdiction perform determinations under the Social Security Administration's Disability Insurance (DI) and Supplemental Security Income (SSI) programs. DDSs are required to perform such determinations in accordance with Federal law and regulations.<sup>1</sup> Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.

To make proper disability determinations, SSA authorizes each DDS to purchase medical examinations, X rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources when medical and nonmedical evidence is insufficient to make a disability determination.<sup>2</sup> SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization for costs reported on a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*.<sup>3</sup> The DDS withdraws Federal funds through the Department of the Treasury's Automated Standard Application for Payments system to pay for program expenditures.

MO-DDS' central office is in Jefferson City, Missouri, and its five district offices are in Cape Girardeau, Jefferson City, Kansas City, Saint Louis, and Springfield, Missouri. MO-DDS is a component of the Missouri Division of Vocational Rehabilitation, within the Department of Elementary and Secondary Education.

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

<sup>2</sup> SSA, POMS, DI 39545.120 A (April 20, 2007).

<sup>3</sup> SSA, POMS, DI 39501.020 B (February 28, 2002), DI 39506.001 B (March 12, 2002), and DI 39506.202 A (March 12, 2002).

## RESULTS OF REVIEW

MO-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 identified weaknesses in MO-DDS' equipment inventory records and general security controls. Specifically, MO-DDS did not maintain an accurate inventory of SSA-purchased computer equipment. In addition, MO-DDS' security plans did not have all essential information required by SSA's policy. Finally, MO-DDS' central office did not have adequate fire detection and suppression devices, and the computer rooms at the central office and three district offices did not have alarms for environmental controls.

### Inventory Controls Were Not Adequate

MO-DDS did not maintain adequate equipment inventory records. Specifically, equipment either was not at the location identified in the inventory records or was not recorded in the inventory records. Incomplete inventory records hinder the detection of stolen or misplaced equipment.

According to MO-DDS, it added new business processes and corrected its inventory records to aid in tracking inventory more effectively. Specifically, MO-DDS had created an internal audit form that each district office will complete biannually certifying that the office has audited the inventory. In addition, MO-DDS management will conduct annual site visits to each office and perform an inventory review.

We did not verify the completeness or accuracy of most of the changes to MO-DDS' inventory records since they were made after we completed our inventory testing.<sup>4</sup> Therefore, we recommend the SSA Regional Commissioner verify MO-DDS' new inventory system complies with SSA instructions.<sup>5</sup>

### Security Plans Not Complete

MO-DDS' security plans did not contain all information required by SSA policy. Because MO-DDS is decentralized, SSA policy requires that each of its five district offices have a security plan. However, security plans for the central office and all five district offices were missing essential information. Because of the sensitive nature of the security plan information, we are not identifying the missing essential information in this report. Rather, we provided the missing essential information for each plan to SSA's Kansas City Regional Office and MO-DDS under separate cover. A delay in creating a complete security plan could result in a longer

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<sup>4</sup> We were able to verify a few corrected inventory records at the Jefferson City district office since they were made during our on-site fieldwork.

<sup>5</sup> We also reported on inadequate inventory controls in our prior audit of MO-DDS. See SSA OIG, *Administrative Costs Claimed by the Missouri DDS* (A-07-06-16098), July 2007, pp. 3 and 4.

recovery period following a catastrophic event. Therefore, we recommend the SSA Regional Commissioner instruct MO-DDS to timely complete security plans that meet SSA requirements.

## **Inadequate Fire Detection and Suppression Devices**

MO-DDS' central office did not have adequate fire detection and suppression devices. Federal guidelines state that these devices, such as smoke detectors and sprinkler systems, should be installed and working.<sup>6</sup> The central office did not have any smoke detectors. While the central office had a sprinkler system, it was not tested annually. Therefore, it is unknown whether the sprinkler system was in proper working order. Because it did not have adequate fire detection and suppression devices, the central office was at risk of not identifying a fire in time to minimize damage to employees and equipment. Therefore, we recommend the SSA Regional Commissioner work with MO-DDS to ensure adequate fire detection and suppression devices are in place and tested annually at MO-DDS' central office.

## **Alarms for Environmental Controls in Computer Rooms**

There were water pipes above the computer rooms in MO-DDS' central office and three district offices, but there were no alarms for environmental controls, as required by SSA instructions. The lack of alarms could result in damage to MO-DDS' computer equipment because DDS employees would not be alerted if, for example, the water pipes leaked. In April 2013, leaking water pipes damaged the drop ceiling in the Jefferson City district office's computer room.<sup>7</sup> We recommend the SSA Regional Commissioner instruct MO-DDS to install alarms for environmental controls in the computer rooms of MO-DDS.

## **CONCLUSIONS**

MO-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, MO-DDS did not maintain an accurate inventory of SSA-purchased computer equipment. In addition, MO-DDS' security plans did not have all essential information required by SSA's policy. Finally, MO-DDS' central office did not have adequate fire and suppression devices, and computer rooms at the central office and three district offices did not have alarms for environmental controls.

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<sup>6</sup> Government Accountability Office's *Federal Information Systems Controls Audit Manual* (GAO-09-232G), Chapter 3, Evaluating and Testing General Controls, Contingency Planning 2.2, pp. 320 and 321, February 2009.

<sup>7</sup> The damage to the drop ceiling was not directly above the computer equipment; however, further water leakage could have resulted in damage to the computer equipment.

## RECOMMENDATIONS

We recommend the SSA Regional Commissioner:

1. Verify MO-DDS' new inventory system complies with SSA instructions.
2. Instruct MO-DDS to timely complete security plans that meet SSA requirements.
3. Work with MO-DDS to ensure adequate fire detection and suppression devices are in place and tested annually at MO-DDS' central office.
4. Instruct MO-DDS to install alarms for environmental controls in the computer rooms of MO-DDS offices to meet SSA's requirement.

## AGENCY COMMENTS

SSA agreed with our recommendations. The Agency's comments are included in Appendix B. MO-DDS reviewed the draft report and informed us that it did not have any comments.

# *APPENDICES*

## Appendix A – SCOPE AND METHODOLOGY

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### 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 Missouri Disability Determination Services (MO-DDS) and the drawdown of SSA program appropriations.
- Interviewed staff at the Missouri Division of Vocational Rehabilitation and MO-DDS.
- Reviewed State policies and procedures related to Personnel, Medical, 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 MO-DDS on the Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, for Federal Fiscal Years (FY) 2011 and 2012.
- Examined specific administrative expenditures (Personnel, Medical, and All Other Non-personnel costs) incurred and claimed by MO-DDS for FYs 2011 and 2012 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.
- Examined the indirect costs claimed by MO-DDS for FYs 2011 and 2012.
- 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.
- Conducted a limited review of MO-DDS’ general security controls.
- Reviewed policies and procedures related to personally identifiable information to determine whether MO-DDS had controls in place to protect these data.

We determined the data provided by Missouri Division of Vocational Rehabilitation and MO-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 August 2013 through February 2014.

## Methodology

### *Sampling Methodology*

The sampling methodology encompassed the four general areas of costs reported on the Form SSA-4513: (1) Personnel, (2) Medical, (3) Indirect, and (4) All Other Non-personnel costs. We obtained a data extract of all costs for FYs 2011 and 2012 for use in statistical sampling. We obtained this from the accounting systems used in preparing the Form SSA-4513.

### *Personnel Costs*

We reconciled MO-DDS' personnel costs to the Form SSA-4513. We randomly selected one pay period, ended December 31, 2011, for further review. We selected a random sample of 25 regular employees and 50 medical consultants for additional review and testing of their payroll records for the pay period ended December 31, 2011.

### *Medical Costs*

We selected 100 items (50 items each from FYs 2011 and 2012) using a stratified random sample. The random sample was based on the proportion of medical evidence of record and consultative examination costs to the total medical costs claimed.

### *Indirect Costs*

MO-DDS' indirect costs are computed by applying a federally approved rate to a cost base. This methodology was approved by the U.S. Department of Education, which is the Federal agency designated to negotiate and approve the indirect cost rate.

On the final Form SSA-4513, MO-DDS claimed indirect costs of \$1,092,881 for FY 2011 and \$1,172,485 for FY 2012. We reviewed the FY 2011 and 2012 indirect cost calculations to ensure indirect costs did not exceed the amount allowed by the federally approved rate.

### *All Other Non-personnel Costs*

We selected 104 items (52 items each from FYs 2011 and 2012) 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.

## Appendix B – AGENCY COMMENTS

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April 28, 2014

Subject: Signed Draft Report (A-07-13-23112) - Kansas City Response

To: Inspector General

From: Regional Commissioner  
Kansas City

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

1. Verify MO-DDS' new inventory system complies with SSA instructions.

We agree with the finding; the Region will ensure the inventory system complies with SSA standards.

2. Instruct MO-DDS to timely complete security plans that meet SSA requirements.

We agree with the finding; the Region will work with the DDS to complete the security plans with all elements required. The Region will review the plans annually.

3. Work with MO-DDS to ensure adequate fire detection and suppression devices are in place and tested annually at MO-DDS' central office.

We agree with the finding; the Region will verify the fire detections and suppression devices are in place and tested annually.

4. Instruct MO-DDS to install alarms for environmental controls in the computer rooms of MO-DDS offices to meet SSA's requirement.

We agree with the finding; the Region will work with the Office of Disability Determinations to identify devices to meet this requirement and request funding, as appropriate.

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.

Ken Powell

## Appendix C – MAJOR CONTRIBUTORS

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Mark Bailey, Division Director, Kansas City Audit Division

Tonya Eickman, Audit Manager

Nick Moore, Auditor-in-Charge

Jesse Card, Auditor

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