



SOCIAL SECURITY

MEMORANDUM

Date: June 7, 2005

Refer To:

To: Carl L. Rabun
Regional Commissioner
Seattle

From: Inspector General

Subject: Indirect Costs Claimed by the Oregon Disability Determination Services
(A-09-05-15001)

The attached final report presents the results of our audit. Our objective was to determine whether the indirect costs claimed by the Oregon Disability Determination Services for Federal Fiscal Years 2001 through 2003 were allowable and properly allocated.

Please provide within 60 days a corrective action plan that addresses each recommendation. 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:
Lenore R. Carlson
Jeff Hild
Candace Skurnik
Bryan Johnston

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

June 2005

A-09-05-15001

AUDIT REPORT



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the 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

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

Executive Summary

OBJECTIVE

Our objective was to determine whether the indirect costs claimed by the Oregon Disability Determination Services (OR-DDS) for Federal Fiscal Years (FY) 2001 through 2003 were allowable and properly allocated.

BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State in accordance with Federal regulations. 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 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 expenditures. The expenditures include both direct and indirect costs.

RESULTS OF REVIEW

The Oregon Department of Human Services (OR-DHS) incorrectly charged indirect costs to SSA programs. This occurred because OR-DHS charged SSA for indirect costs from components that did not benefit OR-DDS, and OR-DHS claimed indirect costs on its Form SSA-4513 for which it lacked supporting documentation. As a result, OR-DHS improperly charged SSA for \$3,992,358 in unallowable costs for October 1998 through June 2004.

CONCLUSION AND RECOMMENDATIONS

We recommend that SSA (1) instruct OR-DHS to refund \$3,477,305 for unallowable indirect costs from components that did not benefit OR-DDS for FYs 1999 through 2004, (2) instruct OR-DHS to identify and return unallowable indirect costs from the Office of Information Services (OIS) for FYs 1995 through 1998, (3) instruct OR-DHS to exclude OR-DDS from the cost pools that do not provide it a benefit, and (4) instruct OR-DHS to refund \$515,053 or provide documentation to support the total amount of indirect costs claimed for FY 2002.

SSA COMMENTS

SSA agreed with all of our recommendations. See Appendix C for the full text of SSA's comments.

OR-DHS COMMENTS

OR-DHS generally agreed that it had incorrectly charged indirect costs to SSA programs.

OR-DHS generally agreed with Recommendation 1. OR-DHS stated it had removed \$124,868 of charges from three components and refunded \$111,886 related to OIS costs. OR-DHS did not provide specific comments to address the remaining \$3,240,551 of unallowable indirect costs charged to SSA programs.

For Recommendation 3, OR-DHS stated it adjusted its cost allocation process to eliminate OIS charges. In addition, OR-DHS stated that unallowable charges from three components had been made because of administrative errors. OR-DHS did not provide comments to Recommendations 2 and 4. See Appendix D for the full text of OR-DHS' comments.

OIG RESPONSE

We appreciate the comments from SSA and OR-DHS. We are pleased that SSA plans to recover the entire amount of unallowable indirect costs identified during our audit. We are encouraged that OR-DHS stated it had removed \$124,868 of unallowable indirect charges from three components and reimbursed SSA \$111,886 related to OIS costs. However, SSA should work with OR-DHS to recover the remaining \$3,240,551 of unallowable indirect costs. Finally, SSA should work with OR-DHS to implement Recommendations 2 and 4.

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OBJECTIVE

Our objective was to determine whether the indirect costs claimed by the Oregon Disability Determination Services (OR-DDS) for Federal Fiscal Years (FY) 2001 through 2003 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 payments to financially needy individuals who are aged, blind, or disabled.

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by disability determination services (DDS) in each State, or other responsible jurisdiction, 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. To assist in making proper disability 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 expenditures up to its approved funding authorization. The expenditures include both direct and indirect costs.² The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system to pay for program expenditures. Funds drawn down must comply with Federal regulations³ and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act of 1990.⁴ An advance or reimbursement for costs under the program must comply with Office of Management and Budget (OMB) Circular A-87, *Cost*

¹ 20 C.F.R. part 404, subpart Q, and part 416, subpart J.

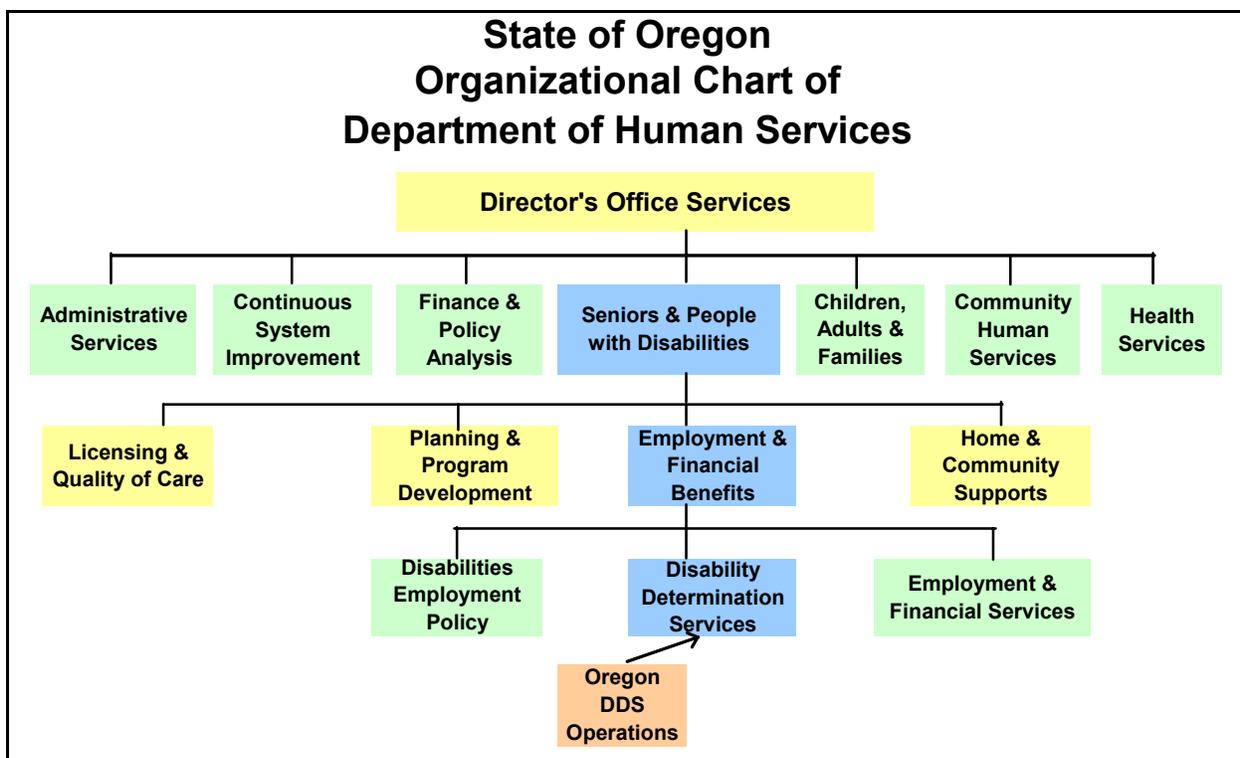
² Direct costs can be identified specifically with a particular cost objective (OMB Circular A-87, Attachment A, § E.1). Indirect costs arise from activities that benefit multiple programs but are not readily assignable to these programs without effort disproportionate to the results achieved. (OMB Circular A-87, Attachment A, § F.1).

³ 31 C.F.R. § 205.1 *et seq.*

⁴ Pub. L. No. 101-453, 31 U.S.C. § 6501.

Principles for State, Local, and Indian Tribal Governments. 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.

Parent agencies, such as the Oregon Department of Human Services (OR-DHS), often provide the State-designated DDS administrative services, such as accounting, purchasing, and personnel. The costs associated with these services are referred to as indirect costs. To allocate indirect costs to all the programs in the Department, OR-DHS categorizes its operations in clusters, offices, units, and subunits. The OR-DDS is a unit of the Employment & Financial Benefits Office within the Seniors & People with Disabilities cluster. The following chart provides an overview of OR-DHS' organizational structure.



From FYs 2001 through 2003, OR-DDS had approximately 184 employees, and OR-DHS reported indirect costs of \$6.1 million with total administrative costs of \$64.5 million.

In FYs 2001 and 2002, OR-DHS used Provisional/Final Rates to allocate indirect costs to OR-DDS. A Provisional Rate is a temporary indirect cost rate applicable to a specified period that is used for funding, interim reimbursement, and reporting indirect costs on Federal awards pending the establishment of a final rate for that period. The

final rate is applied to the specified past period, which is based on the actual allowable costs for the period.⁵

In FY 2003, OR-DHS initiated a State Public Assistance Cost Allocation Plan (Cost Allocation Plan). Under its Plan, OR-DHS accumulated the costs of activities that benefit multiple programs in indirect cost pools. These costs were then allocated to programs that derived a benefit from the activities based on personnel costs.

⁵ OMB Circular A-87, Attachment E § B.7 and 8.

Results of Review

OR-DHS incorrectly charged indirect costs to SSA programs. This occurred because OR-DHS charged SSA for indirect costs from components that did not benefit OR-DDS, and OR-DHS claimed indirect costs on its Form SSA-4513 for which it lacked supporting documentation. As a result, OR-DHS improperly charged SSA for \$3,992,358 of unallowable costs for October 1998 through June 2004.

INDIRECT COSTS IMPROPERLY CHARGED TO SSA

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.⁶ They also state that indirect cost pools should be distributed to benefiting programs on bases that will produce an equitable result in consideration of relative benefits derived.⁷ However, our review disclosed that, from October 1998 through June 2004, OR-DHS charged SSA indirect costs from components that did not benefit OR-DDS. This occurred, in part, because OR-DHS used flawed historical cost information and made errors in estimating the degree of services provided by some of its components to OR-DDS. The following chart illustrates the annual charges allocated and the charging components. A discussion of each charging component follows the chart.

INDIRECT COSTS IMPROPERLY CHARGED TO SSA						
Fiscal Year	Office of Information Services	Volunteer Services	Employment and Financial Services	Financial Recovery	Rate Setting	Total
2004	\$ -	\$ -	\$ 52,231	\$ 7,676	\$ 1,768	\$ 61,675
2003	546,754		13,176	36,097	13,920	609,947
2002	635,058	35,885				670,943
2001	676,283	72,584				748,867
2000	553,575	88,517				642,092
1999	671,580	72,201				743,781
Total	\$ 3,083,250	\$ 269,187	\$ 65,407	\$ 43,773	\$ 15,688	\$ 3,477,305

⁶ OMB Circular A-87, Attachment A, § C.3.a.

⁷ OMB Circular A-87, Attachment A § F.1.

Office of Information Services

OR-DHS improperly charged SSA for indirect costs from the Office of Information Services (OIS). OIS provides application development and support, desktop support, and strategic planning and coordination of information systems for OR-DHS and most of its components. However, OR-DDS personnel stated they stopped relying on OIS to provide user support and began providing most of their own network support in 1995. Instead of relying on OIS, OR-DDS maintains its own dedicated seven-member team that provides system support for DDS operations. The cost of maintaining this team is charged directly to SSA. In addition, SSA has been charged directly for nearly all of OR-DDS' hardware and software requirements since January 1995.

During our audit, OR-DHS conceded that OIS provided no benefit to OR-DDS. Additionally, OR-DHS stated it would no longer allocate indirect costs from OIS to OR-DDS. In February 2004, OR-DHS deducted \$111,886 of OIS costs from its quarterly State Agency Report of Obligations for SSA Disability Programs (SSA-4513).

Our review of the accounting records found that, for FYs 1999 through 2003, OR-DHS improperly charged SSA \$3,083,250 in indirect costs from OIS. We did not quantify the amounts improperly charged to SSA from OIS for FYs 1995 through 1998 because the accounting records were not readily available for this period.

Volunteer Services

From FYs 1999 through 2002, OR-DHS allocated indirect costs from Volunteer Services to OR-DDS. Volunteer Services provides OR-DHS' clients transportation services; however, OR-DDS stated it seldom used Volunteer Services. Instead, it preferred to rely on other forms of transportation (for example, taxis), which were paid when the services were rendered. Accordingly, we determined OR-DHS improperly charged SSA \$269,187 in indirect costs from Volunteer Services. In FY 2003, OR-DHS initiated a cost allocation plan that does not allocate indirect costs from Volunteer Services to OR-DDS.

Employment and Financial Services

In FYs 2003 and 2004, under the Cost Allocation Plan, OR-DHS allocated to OR-DDS indirect costs from the Employment & Financial Services unit. This unit, along with OR-DDS, is a unit of the Employment & Financial Benefits Office within the Seniors & People with Disabilities cluster. We determined that the Employment and Financial Services unit's programs provided no benefits to OR-DDS.

The Medicaid, General Assistance and Food Stamp, and Employed Persons with Disabilities recipients benefited from this unit's services, not OR-DDS. We informed OR-DHS of this condition and it agreed the allocation to OR-DDS was incorrect. As a result, OR-DHS improperly charged SSA \$65,407 in indirect costs from the Employment & Financial Services unit in FYs 2003 and 2004.

Financial Recovery

In FYs 2003 and 2004, OR-DHS improperly charged SSA costs from the Financial Recovery unit. This unit is responsible for recovering state and Federal funds from any party owing money to OR-DHS. The type of recovery activities within the unit include:

- recovery of medical benefits and services provided to deceased Medicaid and General Assistance recipients;
- a review of welfare recipient injury claim forms for insurance and liability;
- recovery of OR-DHS client and provider overpayments;
- collection of revenue in support of institutional operations;
- investigation and recovery of medical expenditures found to be the responsibility of third parties; and
- recovery of other miscellaneous receivables.

We found that OR-DHS charged OR-DDS \$36,097 from the Financial Recovery unit in FY 2003 and \$7,676 in FY 2004. However, based on the description of services provided by the Financial Recovery unit and our interviews with OR-DHS, we concluded this unit did not provide a benefit to OR-DDS. Accordingly, OR-DHS should not have charged SSA with \$43,773 from the Financial Recovery unit.

Rate Setting

In FYs 2003 and 2004, OR-DHS allocated to OR-DDS indirect costs from the Finance & Policy Analysis-Rate Setting unit. The Rate Setting unit serves as the department's lead office for development and implementation of provider rates for medical services across major departmental programs, such as the Oregon Health Plan, long-term care services for people with physical and developmental disabilities, and mental health services. The unit coordinates provider rate issues across OR-DHS and with other State agencies to ensure a cohesive rate policy.

We concluded the Rate Setting unit activities did not relate to OR-DDS operations, and OR-DHS agreed the allocation to OR-DDS was in error. Therefore, OR-DHS improperly charged SSA with \$15,688 in indirect costs from the Rate Setting unit.

UNSUPPORTED INDIRECT COSTS

In FY 2002, OR-DHS allocated indirect costs using a final/provisional rate and reported \$1,911,291 in indirect costs. However, OR-DHS' actual expenditures for FY 2002 totaled \$1,396,238. According to OR-DHS, it was not required to reconcile its claimed costs to actual costs incurred because it had an approved indirect cost rate. Consequently, OR-DHS overstated indirect costs by \$515,053.

SSA policy requires that the State submit a report of its actual expenditures. Any money the State spends for purposes not within the scope of the regulations must be repaid to the U.S. Treasury.⁸

OMB Circular A-87⁹ states a provisional rate is a temporary rate, agreed to in advance, and based on anticipated future costs. It is subject to retroactive adjustment at a future date after costs are known. A final rate is established after the costs are known. Underpayments resulting from application of the provisional rate are subject to availability of funds, while overpayments must be credited or returned.

⁸ SSA Program Operations Manual System DI 39506.001 A.

⁹ Implementation Guide for OMB Circular A-87, Part 6.2.1 (1) and (2).

Conclusions and Recommendations

OR-DHS incorrectly charged indirect costs to SSA programs. This occurred because OR-DHS charged SSA for indirect costs from components that did not benefit OR-DDS, and OR-DHS claimed indirect costs on its Form SSA-4513 for which it lacked supporting documentation. As a result, OR-DHS improperly charged SSA for \$3,992,358 of unallowable costs for October 1998 through June 2004.

We recommend that SSA:

1. Instruct OR-DHS to refund \$3,477,305 for unallowable indirect costs from components that did not benefit OR-DDS for FYs 1999 through 2004.
2. Instruct OR-DHS to identify and return unallowable indirect costs from OIS for FYs 1995 through 1998.
3. Instruct OR-DHS to exclude OR-DDS from cost pools that do not provide it a benefit.
4. Instruct OR-DHS to refund \$515,053 or provide documentation to support the total amount of indirect costs claimed for FY 2002.

SSA COMMENTS

SSA agreed with all of our recommendations. See Appendix C for full text of SSA's comments.

OR-DHS COMMENTS

OR-DHS generally agreed that it had incorrectly charged indirect costs to SSA programs.

OR-DHS generally agreed with Recommendation 1. OR-DHS stated it had removed \$124,868 of charges from three components and refunded \$111,886 related to OIS costs. OR-DHS did not provide specific comments to address the remaining \$3,240,551 of unallowable indirect costs charged to SSA programs.

For Recommendation 3, OR-DHS stated it adjusted its cost allocation process to eliminate OIS charges. In addition, OR-DHS stated that unallowable charges from three components had been made because of administrative errors. OR-DHS did not provide comments to Recommendations 2 and 4. See Appendix D for the full text of OR-DHS' comments.

OIG RESPONSE

We appreciate the comments from SSA and OR-DHS. We are pleased that SSA plans to recover the entire amount of unallowable indirect costs identified during our audit. We are encouraged that OR-DHS stated it had removed \$124,868 of unallowable indirect charges from three components and reimbursed SSA \$111,886 related to OIS costs. However, SSA should work with OR-DHS to recover the remaining \$3,240,551 of unallowable indirect costs. Finally, SSA should work with OR-DHS to implement Recommendations 2 and 4.

Appendices

Acronyms

Act	Social Security Act
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
OMB	Office of Management and Budget
OR-DHS	Oregon Department of Human Services
OR-DDS	Oregon Disability Determination Services
OIS	Office of Information Services
POMS	Program Operations Manual System
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

We reviewed the indirect costs reported by the Oregon Department of Human Services (OR-DHS) and its component, the Oregon Disability Determination Services (OR-DDS), on its *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513) for Federal Fiscal Years (FY) 2001 through 2003. For the items tested, we reviewed OR-DHS' and OR-DDS' compliance with applicable laws and regulations over the allowability of indirect costs and draw down of Federal funds. However, two of our findings affected the costs claimed in FYs 1999 and 2000. In addition, OR-DHS provided us FY 2004 data where we found continued incorrect allocations from three of its components. Therefore, we expanded the audit period to fully develop these findings.

To accomplish our objectives, we:

- Reviewed Office of Management and Budget Circular A-87, the Code of Federal Regulations, United States Code, the Social Security Administration's (SSA) Program Operations Manual System, and OR-DHS' Cost Allocation Plan.
- Interviewed employees from SSA, the Department of Health and Human Services Division of Cost Allocation, OR-DHS, and OR-DDS.
- Reconciled the amount of Federal funds drawn for support of program operations to the claimed expenditures for FYs 2001, 2002, and 2003.
- Examined the indirect costs incurred and claimed by OR-DHS for Employment and Financial Services, Financial Recovery, and Rate Setting during FYs 2003 and 2004.
- Examined the indirect costs incurred and claimed by OR-DHS for Office of Information Services and Volunteer Services during FYs 1999, 2000, 2001, 2002 and 2003.
- Reconciled the accounting records to the indirect costs reported by OR-DHS on its Form SSA-4513 for FYs 2001, 2002 and 2003.

We determined OR-DHS' computer-processed data to be sufficiently reliable for their intended use. We tested cash draw receipts and disbursements recorded in the OR-DHS' automated accounting system made on behalf of OR-DDS. We completed tests to determine the completeness, accuracy, and validity of the data. These tests allowed us to assess the reliability of the data and achieve our audit objectives.

We performed audit work at OR-DHS and OR-DDS in Salem, Oregon. In addition, we performed audit work at the SSA regional office in Richmond, California. We conducted field work from April 2004 through October 2004. We conducted our audit in accordance with generally accepted government auditing standards.

Social Security Administration's Comments



SOCIAL SECURITY

MEMORANDUM

Date: May 11, 2005
S2DXG3:D3

Refer To:

To: Assistant Inspector General
Office
for Audit

Seattle Regional

From: Regional Commissioner
Seattle Region

Subject: Indirect Costs Claimed by the Oregon Disability Determination Services
(A-09-05-15001) - REPLY

This responds to the draft audit report of Indirect Costs Claimed by the Oregon Disability Determination Services (OR-DDS) (A-09-05-15001). The Office of the Inspector General (OIG) had four recommendations for the Oregon Department of Human Services (OR-DHS). Each recommendation, with our response, is shown below:

1. Instruct OR-DHS to refund \$3,477,305 for unallowable indirect costs from components that did not benefit OR-DDS for fiscal years (FYs) 1999 through 2004.

We agree with the recommendation that the OR-DHS should refund \$3,477,305 for unallowable indirect costs from components that did not benefit OR-DDS for FYs 1999 through 2004.

2. Instruct OR-DHS to identify and return unallowable indirect costs from Office of Information Systems (OIS) for FYs 1995 through 1998.

We agree with the recommendation that the OR-DHS should identify and return unallowable indirect costs from OIS for FYs 1995 through 1998. We will work with the OR-DDS and OR-DHS to determine unallowable indirect costs for the period 1995 – 1998.

3. Instruct OR-DHS to exclude OR-DDS from cost pools that do not provide it a benefit.

We agree with the recommendation that the OR-DHS exclude the OR-DDS from cost pools that do not provide it a benefit. The OR-DDS and OR-DHS have taken steps to ensure only costs pools that benefit the OR-DDS are included in indirect cost payments. The OIG audit provided guidance to the OR-DHS on appropriate charges to the OR-DDS. SSA and the OR-DDS will continue to monitor OR-DHS indirect cost pool charges.

4. Instruct OR-DHS to refund \$515,053 or provide documentation to support the total amount of indirect costs claimed for FY 2002.

We agree with the recommendation that the OR-DHS should refund \$515,053 or provide documentation to support the total amount of indirect costs claimed for FY 2002.

If you have any questions regarding this audit, please contact, Shelly Beach, Program Expert, in the Center for Disability at shelly.beach@ssa.gov , by telephone at 206-615-2137, or Don Larsen, Disability Program Administrator at don.larsen@ssa.gov , by telephone at 206-615-2651.

/s/ Carl L. Rabun

cc: Gloria Berning, Assistant Administrator, DDS
Office of Disability Programs, RMB

Oregon Department of Human Services' Comments



Oregon

Theodore R. Kulonigak, Governor

Department of Human Services

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May 18, 2005

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



RE: Report Number A-09-05-15001

Dear Mr. O'Carroll:

Thank you for the opportunity to respond to the draft audit report entitled "Indirect Costs Claimed by the Oregon Disability Determination". As background information, the department operated under two different allocation methods during the period of the audit. For Federal Fiscal Year 2003 and 2004, department-wide service costs were allocated based on an approved Cost Allocation Plan. Prior to that, indirect costs were allocated to DDS based on a federally approved Indirect Rate for the Vocational Rehabilitation Division (VRD) of the Department of Human Services (DHS).

During the audit, we agreed that charges were incorrectly coded to DDS for Employment and Financial Services, Financial Recovery, and Rate Setting activities. These charges totaling \$124,868 were removed from DDS expenditures and placed in the correct cost pool.

While the department was operating under the approved cost allocation plan, a major change in the accounting structure occurred July 1, 2003. This change consolidated multiple agency accounts into one. As a result, adjustments in the cost allocation plan have been made. DHS adjusted the cost allocation process to eliminate future Office of Information Services (OIS) charges from the DDS grant. The department did reimburse SSA \$111,886 in OIS indirect costs charged since the accounting change.

Previous to Federal Fiscal Year 2003, the department allocated indirect costs based on an Indirect Rate approved by the cognizant Federal agency. The Indirect Cost Proposal submitted each year for VRD clearly indicated all the charges included in the rate including OIS and Volunteer Services. These Interagency Services

"Assisting People to Become Independent, Healthy and Safe"
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Patrick P. O'Carroll, Jr.
May 18, 2005
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Charges were allocated based on the DHS Cost Allocation Plan dated December 18, 1996. The department allocated costs based on the final negotiated indirect rate per agreement with the cognizant Federal agency.

During the period of the audit, DHS implemented major organizational and accounting changes. We adjusted our cost allocation plan and methodology to reflect these changes.

Thank you for the opportunity to comment on the draft report and provide our description of activities during these two time periods. Please contact Cynthia Scheick, Chief Audit Officer at 503-945-6700 if you have additional questions.

Sincerely,



Gary K. Weeks
Director
Department of Human Services

c: Vic Todd, Assistant Director for Financial and Policy Analysis
Cynthia Scheick, Chief Audit Officer
Judy Lathrup, Acting Chief Financial Officer
James Toews, Assistant Director for Seniors and People with Disability
Gloria Berning, Director for Oregon Disability Determination Services

H:\DO_Admin\Weeks Communications\410965 P O'Carroll OIG Indirect Cost DHS Audit Response.doc

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Acknowledgments

In addition to those named above:

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Daniel Hoy, Auditor

Brennan Kraje, Statistician

Kim Beauchamp, Writer-Editor

For additional copies of this report, please visit our web site at www.socialsecurity.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-3218. Refer to Common Identification Number A-09-05-15001.

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Social Security Advisory Board

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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 Executive Operations

OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO 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.