
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

March 2008

A-09-07-17103

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: March 20, 2008

Refer To:

To: Don Schoening
Regional Commissioner
Seattle

From: Inspector General

Subject: Administrative Costs Claimed by the Washington Disability Determination Services
(A-09-07-17103)

OBJECTIVE

Our objectives were to (1) evaluate the Washington Disability Determination Services' (WA-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed by WA-DDS were allowable and funds were properly drawn, and (3) assess limited areas of the general security controls environment.

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act), provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program, established under Title XVI of the Act, provides benefits to financially needy individuals who are aged, blind, 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 required to be performed by disability determination services (DDS) in each State or other responsible jurisdiction 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 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.

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

SSA reimburses the DDS for 100 percent of allowable 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 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 Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the fiscal year (FY), each DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and unliquidated obligations.

WA-DDS is a component of the Washington Department of Social and Health Services (DSHS). For FYs 2005 and 2006, WA-DDS had about 241 employees and an authorized budget of \$65.4 million for administrative costs. As of November 14, 2006, WA-DDS reported total disbursements of \$62.9 million and unliquidated obligations of \$2.5 million.

RESULTS OF REVIEW

We found that WA-DDS had effective controls over the accounting and reporting of administrative costs, and its general security controls environment was effective. In addition, the costs claimed by WA-DDS were generally allowable, and funds were properly drawn. However, SSA would have saved approximately \$1.2 million in indirect costs had self-insurance premiums been allocated to WA-DDS based on historical losses rather than full-time equivalent (FTE) employees. Furthermore, if the allocation methodology is changed, we estimate that SSA could realize \$303,211 in program savings over the next 12 months.

Indirect Costs

Federal cost standards state that expenditures may be allocated to a particular program if the goods or services are charged in accordance with relative benefits received.⁴ Furthermore, the Federal cost standards state that, if individual departments or agencies of the government unit experience significantly different levels of claims for particular risk, those differences are to be recognized by the use of separate allocations or other techniques resulting in an equitable allocation.⁵ According to DSHS' Cost Allocation Plan, self-insurance premiums are accumulated in a departmental indirect cost pool that is allocated to components based on FTEs.

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

⁵ OMB Circular A-87, Attachment B, § 22.d(4).

Allocation of Self Insurance Premiums

The State of Washington’s Office of Financial Management and Risk Management (OFMRM) manages the self-insurance program that insures State agencies against tort claim judgments, settlements and defense costs arising from general liability, and vehicle accidents for which the agencies are found to be wholly or partially negligent. OFMRM sets and collects the self-insurance premiums and allocates those premiums to DSHS and other State departments based on their 5-year history of losses.

Although OFMRM allocates self-insurance premiums to DSHS based on historical losses, DSHS allocates the premiums to its components based on staffing levels. As shown in the table below, WA-DDS was charged \$1.3 million, or 1.31 percent, of the \$99,328,252 in self-insurance premiums that had been allocated to DSHS between July 2003 and June 2007.

Allocation of Premiums for Self-Insurance Based on FTEs

Component	Premium Amount Paid	Percent of Payment
WA-DDS	\$ 1,302,239	1.31
Other DSHS	98,026,013	98.69
Total	\$99,328,252	100.0

To determine whether DSHS’ allocation of self-insurance premiums was charged in accordance with the relative benefits received, we requested the number of claims filed against WA-DDS for the period July 2003 through June 2007. Subsequently, we were provided information on four claims filed in this period involving WA-DDS. Of the four claims, two had been settled, representing about 0.31 percent of the total cases in which claims had been paid. These two cases had been settled for a total of \$40,782 of the \$43.4 million paid on DSHS claims. As shown in the table below, these two cases accounted for 0.09 percent of the total amount settled on DSHS cases. The remaining two cases were pending at the time of our audit.

Historical Losses for Self-Insurance Claims Paid

Component	Claims Paid	Amount paid	Percent of Total
WA-DDS	2	\$ 40,782	0.09
Other DSHS	635	43,419,380	99.91
Total	637	\$43,460,162	100

We found that DSHS' charges for self-insurance premiums based on FTEs were not in accordance with relative benefits received, as required by Federal cost standards.⁶ In addition, if the self-insurance premium allocation was based on historical losses, WA-DDS would have paid a significantly lower premium. As shown in the table below, if WA-DDS claims paid from July 2003 through June 2007 are representative of its historical losses, WA-DDS would have only paid \$89,395 for self-insurance premiums instead of the \$1,302,239 in payments based on FTEs. The resulting savings would have been \$1,212,844 (\$303,211 per year). Finally, if DSHS changes its allocation methodology based on historical losses, we estimate SSA could realize \$303,211 in program savings over the next 12 months.

Self-Insurance Premium Savings - Allocation Based on Historical Losses

Allocation Methodology and Premium Savings	Total Premium	Percent of Premium	Premium Payable
FTEs	\$99,328,252	1.31	\$1,302,239
Historical Losses	\$99,328,252	0.09	89,395
Premium Savings			\$1,212,844

CONCLUSION AND RECOMMENDATION

Our review disclosed that SSA would have saved approximately \$1.2 million of indirect costs if self-insurance premiums had been allocated to WA-DDS based on historical losses rather than FTEs. Over the next 12 months, we estimate SSA could realize \$303,211 in program savings. Therefore, we recommend that SSA instruct DSHS to revise its cost-allocation plan to charge self-insurance premiums in accordance with the relative benefits received (for example, allocating based on historical losses).

AGENCY COMMENTS

SSA and DSHS agreed with our recommendation. See Appendices C and D for the full text of SSA's and DSHS' comments.



Patrick P. O'Carroll, Jr.

⁶ OMB Circular A-87, Attachment A, § F.1.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – The Social Security Administration’s Comments

[APPENDIX D](#) – The Washington Department of Social and Health Services’ Comments

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

Acronyms

Act	<i>Social Security Act</i>
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
OFMRM	Office of Financial Management and Risk Management
OIG	Office of the Inspector General
OMB	Office of Management and Budget
Pub. L. No.	Public Law Number
WA-DDS	Washington Disability Determination Services
DSHS	Washington Department of Social and Health Services
SSA	Social Security Administration
SSA Form-4513	State Agency Report of Obligations for SSA Disability Programs
SSI	Supplemental Security Income
Treasury	Department of Treasury

Scope and Methodology

SCOPE

We reviewed the administrative costs reported to the Social Security Administration (SSA) by the Washington Disability Determination Services (WA-DDS) on the *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for Federal Fiscal Years (FY) 2005 and 2006. As of November 14, 2006, WA-DDS had reported the following disbursements and unliquidated obligations on its Forms SSA-4513.

Category	FY 2005	FY 2006
Disbursements		
Personnel Costs	\$16,695,826	\$16,835,875
Medical Costs	10,737,216	8,891,538
Indirect Costs	1,376,196	1,432,110
All Other Nonpersonnel Costs	3,597,136	3,323,122
Total Disbursements	32,406,374	30,482,645
Unliquidated Obligations	8,227	2,464,034
Total Obligations	\$32,414,601	\$32,946,679

To accomplish our objective, we:

- Reviewed applicable Federal laws and regulations, pertinent sections of SSA's Program Operations Manual System, and other criteria relevant to administrative costs claimed by WA-DDS and drawdowns of SSA program funds.
- Reviewed Washington Department of Social and Health Services (DSHS) policies and procedures related to Personnel, Medical, Indirect, and All Other Nonpersonnel Costs.
- Interviewed employees from the SSA regional office, DSHS, and WA-DDS.
- Reviewed the Single Audit of the State of Washington for the FY ended June 30, 2006.
- Obtained an understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of the tests to be performed.
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures.

- Examined the administrative costs incurred and claimed by DSHS for Personnel, Medical, Indirect, and All Other Nonpersonnel Costs during FYs 2005 and 2006.
- Reconciled the accounting records to the administrative costs reported by DSHS on the Forms SSA-4513 for FYs 2005 and 2006.
- Selected a random sample of Personnel, Medical, and All Other Nonpersonnel Costs.
- Verified indirect costs for FYs 2005 and 2006 based on the approved indirect cost allocation plan.
- Conducted a limited examination of WA-DDS' general security controls environment.

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

We performed audit work at the WA-DDS in Tumwater, Washington. We conducted fieldwork between April and November 2007. We conducted our audit in accordance with generally accepted government auditing standards.

SAMPLING METHODOLOGY

Our sampling methodology included the three general areas of costs as reported on SSA Forms-4513: (1) Personnel, (2) Medical, and (3) All Other Nonpersonnel Costs. We obtained computerized data from WA-DDS for FYs 2005 and 2006 for use in statistical sampling.

Personnel Costs

We sampled 50 employee salary items from 1 randomly selected pay period in FY 2006. We tested regular and overtime payroll and hours for each individual selected. We verified that approved time records were maintained and supported the hours worked. We tested payroll records to ensure WA-DDS correctly paid employees and adequately documented these payments.

We reviewed all medical consultant costs from one randomly selected pay period in FY 2006. We determined whether costs were reimbursed properly and ensured the selected medical consultants were licensed.

Medical Costs

We sampled 100 medical evidence of record and consultative examination expenses (50 items from each FY) using a stratified random sample. We distributed the sample items between medical evidence of records and consultative examinations based on the proportional distribution of the total medical costs for each year. We determined whether sampled costs were properly reimbursed.

All Other Nonpersonnel Costs

We stratified All Other Nonpersonnel Costs into 10 categories: (1) Occupancy, (2) Contracted Costs, (3) Electronic Data Processing (EDP) Maintenance, (4) New EDP Equipment, (5) Equipment, (6) Communications, (7) Applicant Travel, (8) DDS Travel, (9) Supplies, and (10) Miscellaneous. We selected a stratified random sample of 50 items from each FY based on the percentage of costs in each category (excluding the rent portion of Occupancy) to total costs. We also performed a 100-percent review of the rent portion of Occupancy expenditures.

The Social Security Administration's Comments



SOCIAL SECURITY

MEMORANDUM

DATE: March 10, 2008

TO: Inspector General
Office of the Inspector General

FROM: Regional Commissioner
Seattle Region

SUBJECT: Administrative Costs Claimed by the Washington Disability Determination Services
(A-09-07-17103) --- REPLY

This responds to the draft report of the Office of the Inspector General (OIG) audit of the Washington Disability Determination Services (WA-DDS) Administrative Costs (A-09-07-17103). Our comment to the one recommendation listed in the report is provided below.

Recommendation: Instruct the Department of Social and Health Services (DSHS) to revise its cost-allocation plan to charge self-insurance premiums in accordance with the relative benefits received (for example, allocating based on historical losses).

Response: We concur. We will request that the Department of Health and Human Services, Division of Cost Allocation, revise the indirect cost agreement so that self-insurance premiums are assessed based on the WA-DDS's risk factors and not their share of the Agency's full time equivalent employees.

We appreciate the opportunity to comment on the audit recommendation. If members of your staff have any questions regarding our comments, please have them contact Dale McGruder, Center for Disability, via email as SF-Exchange or by phone at 206-615-2148.

Don Schoening

The Washington Department of Social and
Health Services' Comments

From: Kero, Peggy [mailto:KEROP@dshs.wa.gov]

Sent: Tuesday, February 26, 2008 2:41 PM

To: Klein, Jim

Cc: MARSHBURN, Stan (DSHS/FSA); GRIPP, Joanne (DSHS/FSA)

Subject: DSHS Response to Draft Report "Administrative Costs Claimed by the Washington Disability Determination Services"

The following response to the draft report (A-09-07-17103) is being sent on behalf on DSHS Secretary Robin Arnold-Williams. If you have any questions, please feel free to contact Stan Marshburn, Chief Financial Officer, at (360) 902-8181. Thanks.

*Administrative Costs Claimed by the Washington Disability Determination Services
Audit Report Number A-09-07-17103
DSHS Response*

Allocation of Self Insurance Premiums

Audit Recommendation:

That SSA instructs DSHS to revise its cost allocation plan to charge self-insurance premiums in accordance with the relative benefits (for example, allocating based on historical losses).

DSHS Response:

The Department of Social and Health Services will work with the state of Washington's Office of Financial Management to identify the methods and classifications used to calculate the agency's annual premium. Based on that work and level of data available, DSHS will then review its current methodology for allocating Self-Insurance Liability Program (SILP) and determine if a more appropriate method is available.

*Peggy Kero, Executive Assistant
DSHS - Office of the Secretary
Phone: (360) 902-7781
Fax: (360) 902-7848*

OIG Contacts and Staff Acknowledgments

OIG Contacts

James Klein, Director, San Francisco Audit Division, (510) 970-1739

Joseph Robleto, Audit Manager, (510) 970-1737

Acknowledgments

In addition to those named above:

Timothy E. Meinholz, Senior Auditor

For additional copies of this report, please visit our web site at <http://www.ssa.gov.oig> or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-09-07-17103.

DISTRIBUTION SCHEDULE

Commissioner of Social Security

Office of Management and Budget, Income Maintenance Branch

Chairman and Ranking Member, Committee on Ways and Means

Chief of Staff, Committee on Ways and Means

Chairman and Ranking Minority Member, Subcommittee on Social Security

Majority and Minority Staff Director, Subcommittee on Social Security

Chairman and Ranking Minority Member, Subcommittee on Human Resources

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

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

Chairman and Ranking Minority Member, Committee on Governmental Affairs

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

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

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

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

Chairman and Ranking Minority Member, Committee on Finance

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

Chairman and Ranking Minority Member, Senate Special Committee on Aging

Social Security Advisory Board

Overview of the Office of the Inspector General

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

Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Resource Management

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