
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**INDIRECT COSTS CLAIMED BY THE
CONNECTICUT DISABILITY
DETERMINATIONS SERVICES**

September 2004

A-15-03-23041

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.



SOCIAL SECURITY

MEMORANDUM

Date: September 7, 2004

Refer To:

To: Manuel J. Vaz
Regional Commissioner
Boston

From: Assistant Inspector General
for Audit

Subject: Indirect Costs Claimed by the Connecticut Disability Determination Services
(A-15-03-23041)

OBJECTIVE

We conducted this audit at the request of the Social Security Administration (SSA). Our objectives were to:

- determine whether the indirect costs claimed by the Connecticut Disability Determination Services (CT-DDS) on the State Agency Reports of Obligations for SSA Disability Programs (Form SSA-4513) for the period October 1, 2001 through September 30, 2003, were allowable and properly allocated;
- determine what indirect services were received by the CT-DDS from the State of Connecticut; and
- determine the reasonableness of the indirect costs allocated to the CT-DDS.

BACKGROUND

Disability determinations under SSA's Disability Insurance and Supplemental Security Income programs are performed by Disability Determination Services (DDS) in each State or other responsible jurisdictions according to Federal regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations.

¹ 42 United States Code (U.S.C.) § 421; 20 Code of Federal Regulations §§ 404.1601 *et seq.* and 416.1001 *et seq.*

SSA reimburses the DDS for 100 percent of the allowable expenditures reported quarterly on Form SSA-4513. The expenditures include both direct and indirect costs.²

SSA requested this audit in response³ to a prior audit report *Audit of the Administrative Costs Claimed by the Connecticut Disability Determination Services (A-15-00-30016)*. Specifically, SSA raised the issue of rising CT-DDS indirect costs as the result of the State of Connecticut changing its methodology for determining indirect costs from an indirect cost rate agreement to a Public Assistance Cost Allocation Plan (from this point on referred to as the “Cost Allocation Plan”).

On June 28, 1994, the United States Department of Health and Human Services (DHHS) Division of Cost Accounting (DCA) approved the Connecticut Department of Human Resources (CT-DHR) indirect cost rate submission for State Fiscal Year (SFY) 1993 (July 1, 1992 through June 30, 1993). The CT-DHR was the parent agency for the DDS. The CT-DDS applied the federally approved indirect rate of 12.2 percent to the direct salaries and wages in computing the indirect costs for Federal Fiscal Year (FFY) 1993 (October 1, 1992 through September 30, 1993).

In calculating the 12.2 percent indirect rate, the CT-DHR excluded 100 percent of the Department of Administrative Services – Bureau of Collection Services statewide central service costs. It did this because these costs were associated with the collection of child support payments, which only benefit the Child Support Enforcement, Title IV-D program.⁴ In addition, the CT-DDS excluded approximately 99 percent of the Office of the Attorney General statewide central service costs because the majority of these costs were associated with the attorneys and support staffs who work primarily on the Child Support Enforcement, Title IV-D program. The CT-DDS only received minor benefits (approximately 1 percent) from the Office of the Attorney General statewide central service costs for costs associated with reviewing any CT-DDS contracts (such as contracts for medical services).

On July 1, 1993, the CT-DHR was merged into the Connecticut Department of Social Services (CT-DSS), which is now the parent agency for the CT-DDS. Also, starting in SFY 1994, the State of Connecticut changed its methodology for determining the indirect costs allocated to the CT-DDS from an indirect cost rate⁵ to a Cost Allocation

² Direct costs can be identified specifically with a particular cost objective (Office of Management and Budget (OMB) Circular A-87, Attachment A, § E.1). Indirect costs arise from activities that benefit multiple State and Federal agencies but are not readily assignable to any one agency (OMB Circular A-87, Attachment A, § F.1).

³ SSA's Boston Regional Commissioner Memorandum dated July 20, 2001.

⁴ The Child Support Enforcement program was established in 1975 as Title IV-D of the Social Security Act, Sec. 451 (42 U.S.C. § 651). Its purpose is to require States to provide a number of services including locating noncustodial parents, establishing paternity, obtaining child and spousal support, and assuring that assistance in obtaining support will be available to all children for whom such assistance is requested.

⁵ Indirect cost rate is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

Plan.⁶ The implementation of the indirect Cost Allocation Plan resulted in an increase in indirect costs allocated to the CT-DDS. However, the State of Connecticut Office of Policy and Management (CT-OPM) granted the CT-DDS a waiver of the increased indirect costs from FFY 1994 through the 1st quarter of FFY 2003. This waiver was granted because of the adverse impact on program services (i.e., reduction in services) that would have resulted if the CT-DDS were assessed the full impact of the indirect cost allocation charges, since SSA did not budget for the unexpected increase in indirect charges. Therefore, for this period, the CT-DDS was allocated indirect costs at the prior rate of 12.2 percent.

On June 10, 2003, DHHS-DCA approved the CT-DSS Cost Allocation Plan effective July 1, 2001. Further, on June 19, 2003, the DHHS-DCA approved the amended CT-DSS Cost Allocation Plan effective April 1, 2002. Therefore, starting in the 2nd quarter of FFY 2003, the CT-DDS was required to follow the federally approved Cost Allocation Plan.

RESULTS OF REVIEW

The DHHS-DCA approved Statewide Cost Allocation Plan distributed several statewide central service costs (including the Department of Administrative Services – Bureau of Collection Services and the Office of the Attorney General) to the CT-DSS. The CT-DSS further distributed these costs in accordance with the Cost Allocation Plan to the CT-DDS. However, the CT-DDS did not receive any benefits from Department of Administrative Services – Bureau of Collection Services because these costs were associated with the collection of child support payments, which only benefit the Child Support Enforcement, Title IV-D program. Also, the CT-DDS only received minor benefits (approximately 1 percent) from the Office of the Attorney General statewide central service costs associated with reviewing any CT-DDS contracts (such as contracts for medical services).

⁶ Public assistance cost allocation plan refers to a narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies.

Therefore, we disallowed \$287,442 of the obligated \$2,620,985 indirect costs as follows:

Year	Claimed Cost	Disallowed Cost	Difference
FFY 2002			
1 st Quarter	\$182,951	\$0	\$182,951
2 nd Quarter	184,390	0	184,390
3 rd Quarter	203,643	0	203,643
4 th Quarter	<u>197,727</u>	<u>0</u>	<u>197,727</u>
2002 Total	\$768,711	\$0	\$768,711
FFY 2003			
1 st Quarter	\$195,654	\$0	\$195,654
2 nd Quarter	346,879	142,355	204,524
3 rd Quarter	650,235	145,087	505,148
4 th Quarter	<u>659,506</u>	<u>0</u>	<u>659,506</u>
2003 Total	\$1,852,274	\$287,442	\$1,564,832
Total			
	\$2,620,985	\$287,442	\$2,333,543

**INDIRECT RATE AGREEMENT
(FFY 2002 THROUGH THE 1ST QUARTER OF FFY 2003)**

The CT-OPM granted the CT-DDS a waiver of the increased indirect costs associated with the Cost Allocation Plan that exceeded the prior indirect rate of 12.2 percent for FFY 2002 through the 1st quarter of FFY 2003. This waiver was granted due to the adverse impact on program services (i.e., reduction in services) which would have resulted if the CT-DDS were assessed the full impact of the indirect cost allocation charges, since SSA did not budget for the unexpected increase in indirect charges. Therefore, for this period, the CT-DDS was allocated indirect costs at the prior indirect rate of 12.2 percent.

We concluded that the CT-DDS correctly applied the federally approved indirect rate of 12.2 percent to the direct salaries and wages in computing the indirect costs allocated to the CT-DDS for FFY 2002 through the 1st quarter of FFY 2003. We took no exception to the \$964,365 (\$768,711 for FFY 2002 and \$195,654 for the 1st quarter of FFY 2003) obligated indirect costs.

INDIRECT COST ALLOCATION PLAN (2ND AND 3RD QUARTERS OF FFY 2003)

The CT-DDS calculated the \$997,114 (\$346,879 for the 2nd quarter of FFY 2003 and \$650,235 for the 3rd quarter of FFY 2003) obligated indirect costs for the 2nd and 3rd quarters of FFY 2003⁷ based on the Cost Allocation Plan. However, we disallowed \$287,442 of the obligated \$997,114 indirect costs or approximately 29 percent as the result of the CT-DSS allocating the Department of Administrative Services – Bureau of Collection Services and the Office of the Attorney General statewide central services costs to the CT-DDS in a manner not consistent with the amount of benefit received. Specifically, we excluded:

- 100 percent of the Department of Administrative Services – Bureau of Collection Services statewide central service costs. The CT-DDS historically excluded 100 percent of the Department of Administrative Services – Bureau of Collection Services statewide central service costs in calculating the indirect rate since the costs were associated with the collection of child support payments which only benefit the Child Support Enforcement, Title IV-D program.
- Approximately 99 percent of the Office of the Attorney General statewide central service costs. The CT-DDS historically excluded a majority (approximately 99 percent) of the Office of the Attorney General statewide central service costs in calculating the indirect rate since the costs were associated with the attorneys and support staffs who work primarily on the Child Support Enforcement, Title IV-D program. The CT-DDS only received minor benefits (approximately 1 percent) from the Office of the Attorney General statewide central service costs associated with reviewing any CT-DDS contracts (such as contracts for medical services).

The CT-DSS disagreed with our results and stated that the primary responsibility of the Department of Administrative Services – Bureau of Collection Services is to provide billing and collection services, and to administer trust accounts for individuals in State run facilities. Also, the CT-DSS stated that the Office of the Attorney General represents and advocates the interests of the CT-DSS and provides investigation and legal assistance for Affirmative Action complaints. However, the CT-DSS did not provide any evidence that the CT-DDS received any benefits from Department of Administrative Services – Bureau of Collection Services and the Office of the Attorney General statewide approved central service costs.

⁷ The indirect costs for the 3rd quarter of FFY 2003 are significantly greater than the indirect costs for the 2nd quarter of FFY 2003. The increase in indirect costs is the result of approximately \$116,000 additional indirect costs associated with termination leave payments not applicable to the 2nd quarter of FFY 2003. Also, the CT-DSS implemented new allocation software (MaxCars) in the 3rd quarter of FFY 2003, which allocated indirect costs in greater detail.

OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, attachment A, C, 3, (a) states, "...a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received." The risk of allocating the Department of Administrative Services – Bureau of Collection Services and the Office of the Attorney General statewide central services costs to the CT-DDS is increased if the Cost Allocation Plan allocates these costs without taking into account the relative benefits received. Therefore, these costs are not allocable to the CT-DDS because it only benefits the Child Support Enforcement, Title IV-D Program. However, these costs may be allowable⁸ and allocable to the Department of Health and Human Services, the Office of Child Support Enforcement, Administration for Children and Families which has Federal oversight responsibility for State Title IV-D Child Support programs.

ESTIMATED INDIRECT COSTS (4TH QUARTER OF FFY 2003)

As of December 12, 2003, the CT-DDS estimated \$659,506 obligated indirect costs for the 4th quarter of FFY 2003. The CT-DDS did not have any support for this estimate; therefore, we were unable to audit these indirect costs. The CT-DSS stated that it had not calculated the 4th quarter indirect costs in accordance with the Cost Allocation Plan. The CD-DSS is revising its cost allocation claims since July 2001 (the effective date of a Cost Allocation Plan) to conform to the Cost Allocation Plan. Also, the CT-DSS implemented new allocation software (MaxCars) in the 3rd quarter of FFY 2003. Therefore, the CT-DDS is using the 3rd quarter of FFY 2003 as the template for the new allocation software and will recalculate the 4th quarter of FFY 2003 once all the allocation software corrections are complete.

When the CT-DSS recalculates the 4th quarter of FFY 2003 indirect costs based on the Cost Allocation Plan, the CT-DSS should exclude the Department of Administrative Services – Bureau of Collection Services and the Office of the Attorney General statewide central service costs. Also, the CT-DDS should adjust the FFY 2003 unliquidated obligations of \$1,348,059 (total FFY 2003 indirect cost obligation amount of \$1,852,274 less the disbursement amount of \$504,215)⁹ and update the SSA-4513 for the recalculated indirect cost amount.

⁸ Section 455 (42 U.S.C. § 655) limits the amount paid to each State to either 80 percent for data processing, 90 percent for paternity testing or 66 percent for operational costs.

⁹ Form SSA-4513 as of September 30, 2003.

RECOMMENDATIONS

We recommend SSA instruct the CT-DDS to:

1. Return \$287,442 of unallowable indirect costs associated with the 2nd and 3rd quarters of FFY 2003.
2. Ensure that the indirect costs for the 4th quarter of FFY 2003 indirect costs exclude costs for the Department of Administrative Services – Bureau of Collection Services and the Office of the Attorney General.
3. Ensure that SFY 2004 Cost Allocation Plan distributes statewide central service costs to the CT-DDS according to the relative benefits received in accordance with OMB A-87.
4. Request DHHS-DCA to audit the reasonableness of the proposed SFY 2004 Cost Allocation Plan statewide allocation methodology taking into account the issues discussed in this report. (If DHHS-DCA has already approved the SFY 2004 Statewide Allocation Plan, SSA should request the DHHS-DCA revisit the statewide central service costs to ensure that the CT-DDS receives some relative benefit from these costs and amend the plan as needed.)

SSA COMMENTS

SSA agreed with our recommendations. The full text of SSA's comments is included in Appendix D.

STATE AGENCY COMMENTS

CT-DSS disagreed with our recommendations. Specifically, CT-DSS believes it has

- properly allocated the Statewide Cost Allocation Plan costs because it allocated indirect costs in compliance with the approved Public Assistance Cost Allocation Plan; and
- applied a reasonable approach to allocating indirect costs to benefiting agencies (not to benefiting programs within agencies) in accordance with OMB Circular A-87.

The full text of the CT-DSS' comments is included in Appendix E.

OIG RESPONSE

In our opinion, the allocation of statewide central services costs to the CT-DDS is not reasonable, despite the fact it was approved by DCA. Moreover, DCA's Public Assistance Cost Allocation Plan approval letter states, "The implementation of the cost allocation plan approved by this document may from time to time be reviewed by authorized Federal staff. The disclosure of inequities during such review may necessitate changes to the plan." We believe that the current allocation is not equitable to the CT-DDS. In fact, the CT-DSS discussed this inequity in its response when it stated, "While the CT-DDS may not have received any direct benefits from these services during the quarters in question, the services offered by Department of Administrative Services and Office of Acquisition and Grants are ones that at times could be critical to the CT-DDS."

Additionally, OMB A-87 states:

A cost is allocable to a particular cost objective (function, organizational subdivision, contract, grant, or other activity for which cost data are needed and which costs are incurred) if the goods or services involved are chargeable or assignable to such cost objectives in accordance with the relative benefits received.¹⁰

Thus, the statewide central service costs should be allocated to the CT-DDS in accordance with the relative benefits received. Furthermore, the DHHS, as mandated by OMB A-87, issued *A Guide for State, Local and Indian Tribal Governments – Cost Principles and Procedures for Developing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government (ASMB C-10)*. This guide is designed to assist State, local, and Indian tribal governments in applying OMB A-87. In response to a specific question, the guide "...requires that where a cost or activity benefits multiple activities or programs, those costs must be allocated in accordance with the relative benefits received by each activity or program. This requirement is an underlying principle of cost allocation."¹¹

In our opinion, allocation to the CT-DDS of costs for the specific services discussed in this report is not reasonable, despite the fact that the allocation plan used to allocate the costs was approved by DCA. We believe SSA's proposed actions will reasonably distribute the cost of these services to the CT-DDS, and we encourage SSA to move forward with its planned corrective actions.



Steven L. Schaeffer

¹⁰ OMB Circular A-87, Attachment A, § C.3a.

¹¹ ASMB C-10, Attachment A – General Principles for Determining Allowable Costs, Section 2.11 Questions and Answers on Attachment A, Question 2-12.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Comparison of Indirect Costs (Indirect Rate vs. Indirect Cost Allocation Plan)

APPENDIX D – SSA Comments

APPENDIX E – State Agency Comments

APPENDIX F – OIG Contacts and Staff Acknowledgments

Acronyms

CT-DDS	Connecticut Disability Determination Services
CT-DHR	Connecticut Department of Human Resources
CT-DSS	Connecticut Department of Social Service
CT-OPM	Connecticut Office of Policy and Management
DCA	Division of Cost Accounting
DDS	Disability Determination Services
DHHS	Department of Health and Human Services
FFY	Federal Fiscal Year
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
OIG	Office of the Inspector General
OMB	Office of Management and Budget
SSA	Social Security Administration
SFY	State Fiscal Year
U.S.C.	United States Code

Scope and Methodology

The Social Security Administration (SSA) requested this audit in response¹ to a prior audit report *Audit of the Administrative Costs Claimed by the Connecticut Disability Determination Services* (A-15-00-30016) issued September 17, 2001. Specifically, SSA raised the issue of the rising Connecticut Disability Determination Services (CT-DDS) indirect costs as the result of the State of Connecticut changing its methodology for determining indirect costs from an indirect cost rate agreement to a Cost Allocation Plan. Therefore, we limited our audit to the impact the approved Connecticut Department of Social Services (CT-DSS) Public Assistance Cost Allocation Plan (effective July 1, 2001) had on the CT-DDS indirect costs reported on the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) for Federal Fiscal Years (FFY) 2002 and 2003. To complete our objectives, we:

- Reviewed Office of Management and Budget Circular (OMB) A-87, *Cost Principles for State, Local and Indian Tribal Governments*, SSA's Program Operations Manual System DI 39500 DDS Fiscal and Administrative Management, and other instructions pertaining to administrative costs incurred by CT-DDS.
- Reviewed the State Fiscal Year 2001 and 2002 single audits for the State of Connecticut.
- Interviewed staff at the CT-DDS and its parent agency CT-DSS, Department of Health and Human Services – Division of Cost Allocation, and MAXIMUS (CT-DSS contractor).
- Reviewed CT-DDS' computation using an indirect rate. The specific audit steps performed consisted of the following:
 - ✓ Verified the approved indirect rate was used in FFYs 2002 and 2003,
 - ✓ Verified the approved indirect rate was the "final" indirect rate,
 - ✓ Verified the approved indirect rate was applied to the appropriate base, and
 - ✓ Re-calculated indirect amounts to assure accuracy.
- Reviewed CT-DDS' computation of indirect costs for FFY 2003. The specific audit steps performed consisted of the following:
 - ✓ Verified the statewide indirect cost amount,

¹ SSA's Boston Regional Commissioner Memorandum dated July 20, 2001.

- ✓ Identified the accounts included in the indirect cost pool,
 - ✓ Determined how indirect cost pools were allocated,
 - ✓ Determined if the indirect cost allocation was consistent with the approved Cost Allocation Plan, and
 - ✓ Determined if the allocation method fairly and accurately allocated expenses to all benefiting agencies.
- Reconciled the accounting records to the CT-DDS indirect costs reported on Form SSA-4513.

Also, we compared the indirect costs charged to the CT-DDS for the 2nd and 3rd quarters of FFY 2003 using the indirect rate agreement and the Cost Allocation Plan. See Appendix C for the results of our comparison.

We determined that the computerized data used during our review is sufficiently reliable given our audit objective and intended use of the data and should not lead to incorrect or unintentional conclusions. This audit was conducted in accordance with generally accepted government auditing standards. Our field work was performed from December 2003 through March 2004. We performed the field work at the CT-DSS and CT-DDS in Hartford, Connecticut.

Comparison of Indirect Costs (Indirect Rate vs. Indirect Cost Allocation Plan)

**Fiscal Year (FY) 2003
(2nd and 3rd Quarters)**

	<u>Indirect Rate</u>	<u>Indirect Plan</u>	<u>Difference</u>	<u>Notes</u>
Administrative Overhead	\$ 200,654	\$ 527,712	\$ 327,058	1
Statewide Cost Allocation	178,688	469,402	290,714	2
Total	<u>\$ 379,342</u>	<u>\$ 997,114</u>	<u>\$ 617,772</u>	

Notes:

1. We were unable to isolate the reason for the \$327,058 administrative overhead increase because the indirect rate agreement did not specifically identify the components of this cost (i.e., general support, contract administration, fiscal analysis, budget, fringe benefits or accrued vacation). However, we verified the reasonableness of the allocation methodology under the Cost Allocation Plan. Therefore, we did not take exception to the \$527,712 administrative costs allocated to the Connecticut Disability Determination Services (CT-DDS).

Also, the Social Security Administration (SSA) had concerns regarding the proposed reorganization of production services (i.e., mailroom, duplicating and courier services) effective April 1, 2003. SSA requested¹ that the State of Connecticut not implement this proposed change as it would have a direct impact on the CT-DDS. Our audit of the federally approved Connecticut Department of Social Service (CT-DSS) Cost Allocation Plan effective July 1, 2001, determined that the CT-DDS was not affected by the reorganization of the production services. In fact, the production service costs were specifically excluded from the CT-DDS.

2. The \$290,714 statewide cost allocation increase is due to the CT-DSS allocating the Department of Administrative Services - Bureau of Collection Services and the Office of the Attorney General statewide central services costs to the CT-DDS in a manner inconsistent with the amount of benefits received under the Cost Allocation Plan. Whereas, the indirect rate agreement excluded the Department of Administrative Services - Bureau of Collection Services and the Office of the Attorney General statewide central services costs. Therefore, we determined that \$287,442 of the \$290,714 or approximately 99 percent of the statewide cost allocation increase was the result of this improper allocation. However, these costs may be allowable² and allocable to the Department of Health and Human Services, the Office of Child Support Enforcement, Administration for Children and Families

¹ SSA's Boston Regional Commissioner Memorandum dated March 18, 2003.

² Section 455 (42 United States Code § 655) limits the amount paid to each State to either 80 percent for data processing, 90 percent for paternity testing or 66 percent for operational costs.

which has Federal oversight responsibility for State Title IV-D Child Support programs.

SSA Comments



SOCIAL SECURITY

MEMORANDUM

Date: July 20, 2004

Refer To: S2D1G5/DI-
16/ORC-2004-5866

To: Steven L. Schaeffer
Assistant Inspector General for Audit

From: Manuel J. Vaz /s/
Regional Commissioner
Boston

Subject: Indirect Costs Claimed by the Connecticut Disability Determination Services (CT DDS)
(A-15-03-23041) (Your Memo Dated July 2, 2004) – REPLY

We concur fully with the finding in this audit that the indirect costs claimed by the state of Connecticut for several statewide central services were not reasonable and did not adhere to the intent of OMB Circular A-87. Clearly, we never want to pay for services that we do not receive.

Finding

This audit was conducted at our request because of concerns we had with the increased indirect costs when the State of Connecticut started using a cost allocation plan. We did question all of the indirect services provided by the state to the CT DDS. After a careful review, we met with the state, the contractor writing the cost allocation plan, and the federal negotiator. Together, we scrutinized the costs and services that the DDS receives. Subsequent to that meeting, we continued to work closely with the DHHS cognizant agency to make adjustments. In the end, the DHHS, Division of Cost Allocation (DCA) negotiator assured us that the final negotiated plan had reasonable services and costs, and we therefore accepted it as the final agreement. Even with our substantial involvement, your auditor still found almost a half million dollars a year of “unreasonable” costs.

Recommendations

1. We concur that the state of Connecticut should return \$287,442 for the 2nd and 3rd quarters of FFY2003.
2. We concur that the indirect costs for the 4th quarter of SFY2003 should exclude central services costs for services we do not receive or are not in proportion to the relative benefits received by the DDS.

3. We concur that the state of Connecticut should distribute statewide central service costs to the DDS according to benefits received (and in accordance with OMB Circular A-87).
4. We are unclear concerning the final recommendation and request further clarification of its purpose. Are you asking that we request DHHS-DCA to reopen and amend the plan to exclude these central service charges?

We are pleased with the results of this audit. These significant savings will allow us to devote these resources to claims processing activities. We want to extend our appreciation to your auditors for their cooperation and diligence.

Please contact me or your staff may contact Roni Brown of our Center of Disability at (617) 565-2390.

cc: Associate Commissioner
Office of Disability Determinations

State Agency Comments



STATE OF CONNECTICUT

DEPARTMENT OF SOCIAL SERVICES

OFFICE OF THE COMMISSIONER

Patricia A. Wilson-Coker, JD, MSW
COMMISSIONER

TELEPHONE
(860) 424-5008

TDD/TTY
1-800-842-4524

FAX
(860) 424-5129

July 30, 2004

Steven L. Schaeffer
Assistant Inspector General for Audit
Office of the Inspector General
Social Security Administration
6401 Security Boulevard
Baltimore, MD 21235

Dear Mr. Schaeffer:

I am writing this letter in response to the recent draft audit report, "Indirect Costs Claimed by the Connecticut Disability Determination Services (A-15-03-23041)" provided to the Connecticut Department of Social Services (DSS) on July 2, 2004. In it, Connecticut received a fiscal penalty of \$287,442 for claimed costs during the period of FFY 2003 Quarters 2-3. Page 3 (Attachment A) of the report outlines the nature of the finding:

The DHHS-DCA approved Statewide Cost Allocation Plan distributed several statewide central service costs (including Department of Administrative Services-Bureau of Collection Services and Office of the Attorney General) to the CT-DDS. The CT-DSS further distributed these costs in accordance with the Cost Allocation Plan to the CT-DDS. However, the CT-DDS did not receive any benefits from Department of Administrative Services-Bureau of Collection Services because these costs were associated with the collection of child support payments, which only benefit the Child Support Enforcement, Title IV-D program. Also, the CT-DDS only received minor benefits (approximately 1 percent) from the Office of the Attorney General statewide central service costs associated with reviewing any CT-DDS contracts (such as contracts for medical services). Therefore, we disallowed \$287,442 of the obligated \$2,620,985 costs...

As further background, the draft report indicates that the audit was conducted based on the Social Security Administration's (SSA) request due to their concerns regarding increases in the CT Disability Determination Services (DDS) indirect costs resulting from the state's move from an indirect cost rate agreement to a Public Assistance Cost Allocation Plan in 1994.

The draft report also refers to the federally approved 12.2 percent indirect rate for the CT-Department of Human Resources (DHR) (the parent agency for the DDS, prior to the establishment of the CT Department of Social Services) used for computing indirect costs for

25 SIGOURNEY STREET • HARTFORD, CONNECTICUT 06106-5033

An Equal Opportunity / Affirmative Action Employer
Printed on Recycled or Recovered Paper

1

FFY 1993. The report states that the 12.2 percent indirect cost rate was calculated by excluding 100 percent of Department of Administrative Services (DAS)-Bureau of Collections (BRS) statewide central service costs and 99 percent of the Office of the Attorney General (OAG) statewide central services costs based on the conclusion that DDS did not benefit at all or very little from these services.

We provide below for your review the basis for our position, and we thank you in advance for your consideration of our arguments.

The Department submits that the Statewide Cost Allocation Plan (SWCAP) was approved by the Department of Cost Allocation (DCA) and DSS has allocated their allocable share of SWCAP costs in compliance with the approved Public Assistance Cost Allocation Plan (PACAP). It is not clear to us that the Office of the Inspector General has grounds for a disallowance since Connecticut allocated costs according to the federally approved methodologies. In fact, the OIG seems to support this argument based on a review of the following statements presented on page 3 (Attachment A) of the draft report:

On June 10, 2003, DHHS-DCA approved the CT-DSS Cost Allocation Plan effective July 1, 2001. Further on June 19, 2003, the DHHS-DCA approved the amended CT-DSS Cost Allocation Plan effective April 1, 2002. Therefore, starting the 2nd quarter of FFY 2003, the CT DDS was required to follow the federally approved Cost Allocation Plan.

The DHHS-DCA approved Statewide Cost Allocation Plan distributed several statewide central service costs (including the Department of Administrative Services – Bureau of Collection Services and the Office of the Attorney General) to the CT-DSS. The CT-DSS further distributed these costs in accordance with the Cost Allocation Plan to the CT-DDS (page 3).

The draft audit report plainly states the requirement to follow the federally approved Cost Allocation Plan, which is precisely what the DSS did. OMB-Circular A-87 provides information on the necessary pieces of information in the SWCAP (Attachment B):

For each allocated central service, the plan must also include the following: a brief description of the service, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefited agencies, and a summary schedule showing the allocation of each service to the specific benefited agencies...(OMB A-87, Attachment C, Section E)

This information is contained in the SWCAP, as approved by DCA, and DSS has followed the guidelines in the SWCAP and in the PACAP for allocating costs.

We also question the reasonableness of requiring States to develop a program to cost allocate SWCAP cost allocations to benefiting programs through the Public Assistance CAP.

This is based on the fact that, in general, the purpose of the SWCAP is to identify and allocate statewide indirect costs to benefiting agencies, not to benefiting programs within agencies. The OMB Circular A-87, Attachment C Section B, (Attachment C) provides the following definition for "Allocated central services."

...Central services that benefit operating agencies but are not billed to the agencies on a fee for service or similar basis. These costs are allocated to benefited agencies *on some reasonable basis* (emphasis added). Examples of such services might include general accounting, personnel administration, purchasing, etc.

Thus, the OIG's recommendation that the State cost allocate the SWCAP allocation to benefiting programs belies the premise of the statewide cost allocation plan itself. Moreover, such a practice would require efforts to 'cost allocate' the SWCAP allocation based on program specific units for all allocated SWCAP agencies/units, and programs (both state and federal) within all state agencies, which would require "effort disproportionate to the results achieved (OMB Circular A-87 Attachment A, Section F)." (Attachment D)

Furthermore, we believe we have complied with the above requirement in the OMB A-87 and have applied a reasonable approach to allocating indirect costs to benefiting agencies. As noted in prior communication to the OIG (Attachment E), the primary responsibility of the DAS-BCS is to provide billing and collection services and to administer trust accounts for individuals in state run facilities. The OAG represents and advocates the interests of the CT DSS and provides investigation and legal assistance. While the CT-DDS may not have received any direct benefits from these services during the quarters in question, the services offered by DAS and OAG are ones that at times could be critical to the CT-DDS. For this reason, we have applied a "reasonable" approach when allocating costs.

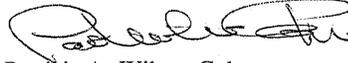
Additionally, the OIG states that (Attachment F):

In calculating the 12.2 percent indirect rate, the CT-DHR excluded 100 percent of the Department of Administrative Services-Bureau of Collection Services statewide central service costs...In addition, the CT DDS excluded approximately 99 percent of the Office of the Attorney General statewide central service costs...(page 2)

We request that the OIG provide the working papers it developed to document this statement. While we understand that the source of this information was the CT-DDS, without such documentation, we wonder how the OIG can be certain that the 12.2 percent indirect rate truly excluded the DAS and OAG costs. We also request that the OIG provide its working papers to document that all of the \$287,442 in the disallowance was associated with costs from the DAS and OAG. Specifically, we require the detail report used to develop Appendix C of the draft finding in order to adequately respond to the finding.

Thank you again for your attention to this issue. We look forward to your review of this letter. If you have any questions, please contact Lee Voghel at (860) 424-5842.

Sincerely,



Patricia A. Wilson-Coker
Commissioner
Connecticut Department of Social Services

Cc: Michael Starkowski, Deputy Commissioner
Claudette Beaulieu, Deputy Commissioner
Robert Aaronson, HHS Regional Director of Cost Allocation
Brenda Moore
Lee Voghel
Mike Gilbert
Mari Spallone
Phil Kostek
Tom Rice

ATTACHMENT A

***COPY OF THE OIG DRAFT AUDIT REPORT "INDIRECT COSTS
CLAIMED BY THE CONNECTICUT DISABILITY DETERMINATION
SERVICES" (A-15-03-23041), PAGE 3***

DRAFT

Page 3 - Manuel J. Vaz

SFY 1994, the State of Connecticut changed its methodology for determining the indirect costs allocated to the CT-DDS from an indirect cost rate⁵ to a Cost Allocation Plan.⁶ The implementation of the indirect Cost Allocation Plan resulted in an increase in indirect costs allocated to the CT-DDS. However, the State of Connecticut Office of Policy and Management (CT-OPM) granted the CT-DDS a waiver of the increased indirect costs from FFY 1994 through the 1st quarter of FFY 2003. This waiver was granted because of the adverse impact on program services (i.e., reduction in services) that would have resulted if the CT-DDS were assessed the full impact of the indirect cost allocation charges, since SSA did not budget for the unexpected increase in indirect charges. Therefore, for this period, the CT-DDS was allocated indirect costs at the prior rate of 12.2 percent.

On June 10, 2003, DHHS-DCA approved the CT-DSS Cost Allocation Plan effective July 1, 2001. Further, on June 19, 2003, the DHHS-DCA approved the amended CT-DSS Cost Allocation Plan effective April 1, 2002. Therefore, starting in the 2nd quarter of FFY 2003, the CT-DDS was required to follow the federally approved Cost Allocation Plan.

RESULTS OF REVIEW

The DHHS-DCA approved Statewide Cost Allocation Plan distributed several statewide central service costs (including the Department of Administrative Services – Bureau of Collection Services and the Office of the Attorney General) to the CT-DSS. The CT-DSS further distributed these costs in accordance with the Cost Allocation Plan to the CT-DDS. However, the CT-DDS did not receive any benefits from Department of Administrative Services – Bureau of Collection Services because these costs were associated with the collection of child support payments, which only benefit the Child Support Enforcement, Title IV-D program. Also, the CT-DDS only received minor benefits (approximately 1 percent) from the Office of the Attorney General statewide central service costs associated with reviewing any CT-DDS contracts (such as contracts for medical services).

⁵ Indirect cost rate is a device for determining in a reasonable manner the proportion of indirect costs each program should bear. It is the ratio (expressed as a percentage) of the indirect costs to a direct cost base.

⁶ Public assistance cost allocation plan refers to a narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies.

ATTACHMENT B

OMB CIRCULAR A-87, ATTACHMENT C, SECTION E

2. Allocated central services. For each allocated central service, the plan must also include the following: a brief description of the service*, an identification of the unit rendering the service and the operating agencies receiving the service, the items of expense included in the cost of the service, the method used to distribute the cost of the service to benefitted agencies, and a summary schedule showing the allocation of each service to the specific benefitted

agencies. If any self-insurance funds or fringe benefits costs are treated as allocated (rather than billed) central services, documentation discussed in subsections 3.b. and c. shall also be included.

ATTACHMENT C

OMB CIRCULAR A-87, ATTACHMENT C, SECTION B

B. Definitions.

1. "Billed central services" means central services that are billed to benefitted agencies and/or programs on an individual fee-for-service or similar basis. Typical examples of billed central services include computer services, transportation services, insurance, and fringe benefits.

2. "Allocated central services" means central services that benefit operating agencies but are not billed to the agencies on a fee-for-service or similar basis. These costs are allocated to benefitted agencies on some reasonable basis. Examples of such services might include general accounting, personnel administration, purchasing, etc.

ATTACHMENT D

OMB CIRCULAR A-87, ATTACHMENT A, SECTION F

F. Indirect Costs

1. General. Indirect costs are those: (a) incurred for a common or joint purpose benefiting more than one cost objective, and (b) not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The term "indirect costs," as used herein, applies to costs of this type originating in the grantee department, as well as those incurred by other departments in supplying goods, services, and facilities. To facilitate equitable distribution of indirect expenses to the cost objectives served, it may be necessary to establish a number of pools of indirect costs within a governmental unit department or in other agencies providing services to a governmental unit department.

ATTACHMENT E

DSS PRIOR COMMUNICATION WITH THE OIG-SSA

**DEPARTMENT OF SOCIAL SERVICES
DIVISION OF FISCAL ANALYSIS
MEMORANDUM**

TO: Mark Meehan, SSA
FROM: Lee Voghel, Director
DATE: February 19, 2004
RE: Response to DDS Audit Questions

The following is in response to your questions in your e-mail dated January 15, 2004.

1. Sheet #1 of excel file: SAAS Expenditures 06-30-03, is the SAAAS expenditure data that was downloaded into the MAXCARS system for the QE 6/30/03. Sheet #2 is a summary of employee hours from the MSA System that were adjusted to reflect salaries and salary adjustments in SAAAS for the QE 6/30/03. The current Cost Allocation uses Employee Hours instead FTE counts. Employee hours more accurately represent employee activity, taking into account any variance in the number of hours by employee(s).
2. The total number of 57,463.00 hours that were identified as DDS, on Sheet #2, was charged to SID 917. Enclosed is a report from MSA for the pay periods 4/4/03 to 6/27/03 charged to SID 917. The total number of hours on the MSA report for the QE 6/30/03 is 114,926. This number is twice the amount as compared to the figure on Sheet#2. MSA hours should be divided by 2, since total hours for each employee are counted twice, once for salaries and once for fringe benefits. The total MSA hours, divided by 2 and adjusted by (1,783.29) agree to 57,403.29 hours on Sheet #2.
3. Fringe benefits are calculated based on the amount of salaries, multiplied times the fringe benefit rate for each expenditure classification (i.e. Full time, Temporary, Accrued Vacation and Accrued Sick). For the QE 6/30/03, we expended \$31,387,070.17 for salaries and calculated \$12,617,230.92 for fringe benefits. Fringe benefits are not allocated in MAXCARS, rather they are calculated based on the amount of salaries charged to each SID and subsequently, the amounts allocated to each Grantee Department.
4. MAXIMUS to provide response to question regarding Accrued Vacation/Sick Allocation to Function 2544 - CATER EMS Operations.
5. See attached schedule of Training Hours for QE 6/30/03.
6. Based on SAAAS reports and Schedule G, expenditures for Management Information Services, function 2500, was \$583,805.52, not \$569,509.25 as indicated in your e-mail. See attached SAAAS report and page 132 of Schedule G. Management Information costs were allocated to General Support based on 1,828.75 hours. See attached summary of MIS Consultant hours for QE 6/30/03 (General Support 1,828.75, equals Gen/Pgm 1,511.75, plus PD/LV 177.25, plus Other 139.75)

7. Allocable non-personnel costs for SID 917 was \$1,249,587. These non-personnel costs are Other Expenses direct charged to SID 917 and subsequently allocated direct to DDS. See attached SAAAS schedule.
8. In FY 1993, Disability Determination Services was administered by the Department of Human Resources. The DHR's SWCAP included costs for the Department of Administrative Services (DAS) - Bureau of Collection Services and the Office of Attorney General. These two components were directly identifiable to the Child Support Enforcement, IV-D Program and were allocated directly to IV-D, with the remaining balance of SWCAP allocated to all programs. In FY 1994, The Departments of Income Maintenance, Human Resources and Aging merged to form the Department of Social Services. The costs included in SWCAP for the Department of Social Services benefit all programs administered by the State Agency and are therefore allocated to all programs.
9. See attached reconciliation schedules for SWCAP.

xc: K. Cain, Maximus
M. Gilbert
K. Carey
T. Rice
M. Spallone
P. Kostek

G:\FEDRPTKOSTEN\AUDIT\Response to M\ncenan.doc

ATTACHMENT F

***COPY OF THE OIG DRAFT AUDIT REPORT "INDIRECT COSTS
CLAIMED BY THE CONNECTICUT DISABILITY DETERMINATION
SERVICES" (A-15-03-23041), PAGE 2***

DRAFT

Page 2 - Manuel J. Vaz

out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations.

SSA reimburses the DDS for 100 percent of the allowable expenditures reported quarterly on Form SSA-4513. The expenditures include both direct and indirect costs.²

SSA requested this audit in response³ to a prior audit report *Audit of the Administrative Costs Claimed by the Connecticut Disability Determination Services (A-15-00-30016)*. Specifically, SSA raised the issue of rising CT-DDS indirect costs as the result of the State of Connecticut changing its methodology for determining indirect costs from an indirect cost rate agreement to a Public Assistance Cost Allocation Plan (from this point on referred to as the "Cost Allocation Plan").

On June 28, 1994, the United States Department of Health and Human Services (DHHS) Division of Cost Accounting (DCA) approved the Connecticut Department of Human Resources (CT-DHR) indirect cost rate submission for State Fiscal Year (SFY) 1993 (July 1, 1992 through June 30, 1993). The CT-DHR was the parent agency for the DDS. The CT-DDS applied the federally approved indirect rate of 12.2 percent to the direct salaries and wages in computing the indirect costs for Federal Fiscal Year (FFY) 1993 (October 1, 1992 through September 30, 1993).

In calculating the 12.2 percent indirect rate, the CT-DHR excluded 100 percent of the Department of Administrative Services – Bureau of Collection Services statewide central service costs. It did this because these costs were associated with the collection of child support payments, which only benefit the Child Support Enforcement, Title IV-D program.⁴ In addition, the CT-DDS excluded approximately 99 percent of the Office of the Attorney General statewide central service costs because the majority of these costs were associated with the attorneys and support staffs who work primarily on the Child Support Enforcement, Title IV-D program. The CT-DDS only received minor benefits (approximately 1 percent) from the Office of the Attorney General statewide central service costs for costs associated with reviewing any CT-DDS contracts (such as contracts for medical services).

On July 1, 1993, the CT-DHR was merged into the Connecticut Department of Social Services (CT-DSS), which is now the parent agency for the CT-DDS. Also, starting in

² Direct costs can be identified specifically with a particular cost objective (Office of Management and Budget (OMB) Circular A-87, Attachment A, § E.1). Indirect costs arise from activities that benefit multiple State and Federal agencies but are not readily assignable to any one agency (OMB Circular A-87, Attachment A, § F.1).

³ SSA's Boston Regional Commissioner Memorandum dated July 20, 2001.

⁴ The Child Support Enforcement program was established in 1975 as Title IV-D of the Social Security Act, Sec. 451 (42 U.S.C. § 651). Its purpose is to require States to provide a number of services including locating noncustodial parents, establishing paternity, obtaining child and spousal support, and assuring that assistance in obtaining support will be available to all children for whom such assistance is requested.

OIG Contacts and Staff Acknowledgments

OIG Contacts

Frederick C. Nordhoff, Director, Financial Audit Division

Victoria Vetter, Audit Manager, (410) 966-9081

Acknowledgments

In addition to those named above:

Mark Meehan, Auditor-in-Charge

Ronald Anderson, Auditor

Donna Parris, Auditor

Annette DeRito, Writer-Editor

For additional copies of this report, please visit our web site at 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-15-03-23041.

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 Executive Operations (OEO). 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 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.