
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**THE DISTRICT OF COLUMBIA'S
DISABILITY DETERMINATION DIVISION'S
INTERNAL CONTROLS OVER THE
ACCOUNTING AND REPORTING OF
ADMINISTRATIVE COSTS**

March 2008

A-15-08-18019

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: March 20, 2008

Refer To:

To: Laurie Watkins
Regional Commissioner
Philadelphia

From: Inspector General

Subject: The District of Columbia's Disability Determination Division's Internal Controls over the Accounting and Reporting of Administrative Costs (A-15-08-18019)

OBJECTIVE

Our objective was to evaluate the District of Columbia's Disability Determination Division's (DC-DDD) internal controls over the accounting and reporting of administrative costs.

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act),¹ 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,² provides benefits to financially needy individuals who are aged, blind, and/or disabled.

The Social Security Administration (SSA) is primarily responsible for implementing policies governing 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, according to Federal laws and regulations.³ In carrying out its obligation, 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

¹ 42 U.S.C. § 401, *et seq.*; 20 C.F.R. Part 404.

² 42 U.S.C. § 1381, *et seq.*; 20 C.F.R. Part 416.

³ 42 U.S.C. §§ 421 and 1382c(a)(3)(H)(i) (2004); 20 CFR §§ 404.1601 *et seq.* and 416.1001 *et seq.* (2002).

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. An advance or reimbursement for costs under the program must comply with Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each fiscal quarter, each DDS submits a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) to account for program disbursements and unliquidated obligations.⁴ The Form SSA-4513 reports expenditures and unliquidated obligations for Personnel Service Costs, Medical Costs, Indirect Costs, and All Other Nonpersonnel Costs. The Form SSA-4513 for the DC-DDD for Fiscal Year (FY) 2006 as of March 31, 2007 showed obligations of \$5,679,371.

The DC-DDD is a component within the District of Columbia's Department on Disability Services (DC-DDS)⁵ Rehabilitation Services Administration (RSA). DC-DDD's sole function is processing SSA disability determinations. DC-DDD's financial reporting functions are primarily the responsibility of the DC-DDS.

We have issued two reports concerning the DC-DDD's internal controls over the accounting and reporting of administrative costs.⁶ In both reports, we determined the DC-DDS did not have adequate internal controls in place to monitor its accounting operations for the DC-DDD. In those reports, we explained that Forms SSA-4513 submitted by the District of Columbia Department of Human Services for FYs 2001 and 2002 contained misstatements, which may lead to incorrect or unintentional conclusions.

RESULTS OF REVIEW

Since our previous audits,⁷ the DC-DDS has made improvements to its internal controls over the accounting and reporting of FY 2006 administrative costs for the DC-DDD. For the period of our review, October 1, 2005 through September 30, 2006, we evaluated the internal controls over the accounting and reporting of administrative costs on the Form SSA-4513 and found minimal areas in need of improvement. Specifically, we

⁴ SSA, Program Operations Manual System (POMS), DI 39506.200 - The Reporting Process - Recording and Reporting Obligations, section B.4., "...[u]nliquidated obligations represent obligations for which payment has not yet been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received."

⁵ Formerly the District of Columbia Department of Human Services.

⁶ *Administrative Costs Claimed by the District of Columbia Disability Determination Division (A-15-04-14052)* August 13, 2004 and *Administrative Costs Claimed by the District of Columbia Disability Determination Division for Fiscal Years 2001 and 2002 (A-15-05-30018)* November 8, 2005.

⁷ Ibid.

found the DC-DDD claimed an improper travel cost of \$2,750 and lacked support for \$38,103 in telephone costs. Also, the DC-DDD did not claim \$183,501 in allowable occupancy and guard service costs and reported \$264,031 of unsupported unliquidated obligations. Given the number of internal control challenges noted during our former audit, the DC-DDS should remain vigilant going forward to address any outstanding internal control weaknesses.

Improper Travel Cost

DC-DDS overcharged DC-DDD \$2,750 for a FY 2006 travel cost that was improperly recorded to DC-DDD. A travel cost that belonged to RSA was recorded as being a DC-DDD cost. Federal regulations provide that States be reimbursed for expenses incurred for program purposes.⁸ The DC-DDS needs to continue to implement controls to prevent and/or detect improper charges to the wrong entity.

Unsupported Telephone Costs

Telephone costs of \$47,203⁹ were based on DC-DDD's FY 2006 budget estimates.¹⁰ The DC-DDD provided supporting documentation for \$9,100 of telephone costs for FY 2006. OMB Circular A-87 states, "To be allowable under Federal awards, costs must...be adequately documented."¹¹ The DC-DDD should coordinate with the District of Columbia Office of Property Management (DC-OPM) to obtain supporting documentation for telephone costs incurred by the DC-DDD. Unsupported telephone costs was a finding in our audit report, *Administrative Costs Claimed by the District of Columbia Disability Determination Division for Fiscal Years 2001 and 2002 (A-15-05-30018)*.

⁸ 20 C.F.R. §§ 404.1626(a) and 416.1026(a).

⁹ The management of the DC-DDD estimated \$70,000 for FY 2006 telephone costs. However, only \$47,203 of the \$70,000 telephone costs was posted to the accounting records of the DC-DDD.

¹⁰ Costs such as occupancy, guard service, and telephone costs are estimated for each FY by the management of the DC-DDD before the commencement of the FY. These estimated costs are pooled with other agencies (within the DC-DDS) estimated costs to determine a pro rata share to allocate the actual costs to the various DC-DDS agencies.

¹¹ OMB Circular A-87, Attachment A, section (C)(1)(j) (1997).

Unclaimed Occupancy and Guard Service Costs

We found additional and allowable occupancy and guard service costs of \$183,501 for FY 2006 that were not estimated and subsequently not recorded in the accounting records of DC-DDD. OMB Circular A-87 states "...costs must be necessary and reasonable for proper and efficient performance and administration of federal awards."¹²

Occupancy Costs

DC-DDD estimated and reported \$450,000 for FY 2006 occupancy costs on Form SSA-4513. However, we found additional and allowable occupancy costs of \$126,302 for FY 2006 were not recorded in DC-DDS' accounting records. Occupancy costs are estimated each FY by DC-DDD management for budgetary purposes. These estimated costs are pooled with other agencies' (within DC-DDS) estimated costs to determine a pro rata share to allocate actual costs to the various DC-DDS agencies. DC-DDD's methodology used to estimate occupancy costs understated the actual costs incurred.

Guard Service Costs

DC-DDS reported \$26,396 for guard services in the accounting records of DC-DDD. However, we found additional and allowable guard service costs of \$57,199 for FY 2006 were not recorded in the accounting records of DC-DDD.

The information that details actual occupancy and guard service costs may be obtained from the Office of Property Management. The DC-DDS should use actual costs of occupancy and guard service to adjust year-end costs and report those actual costs in the accounting system and on Form SSA-4513. If this is not feasible, the DC-DDS needs to work with the DC-DDD to develop a reasonable estimate.

Unsupported Unliquidated Obligations

DC-DDD could not provide supporting documentation for \$264,031 of the \$294,028 medical and occupancy unliquidated obligations it reported on the FY 2006 Form SSA-4513. SSA's instructions state, in part, that valid obligations should be supported by documents/records that describe the nature of the obligations and support the amounts recorded.¹³ SSA's ability to effectively manage the allocation and use of budgeted funds is impeded when unliquidated obligations are not accurately reported. Therefore, we have determined that the FY 2006 unliquidated medical and occupancy costs were misstated.

¹² Id. at (C)(1)(a).

¹³ *Supra* note 4.

Medical Costs

As of June 30, 2007, (9 months after the end of FY 2006), the DC-DDD reported unliquidated medical cost obligations of \$184,028 on its Form SSA-4513. These unliquidated obligations consisted of Consultative Examinations and Medical Evidence of Record costs. Of the costs, the DC-DDD provided supporting documentation for only \$7,182.

Occupancy Costs

As of June 30, 2007, the DC-DDD reported unliquidated obligations for occupancy costs of \$110,000 on its FY 2006 Form SSA-4513. The obligation was related to construction at the DC-DDD office. The DC-DDD could only provide supporting documentation for \$22,815 of these costs.

We believe this misstatement occurred because DC-DDD did not periodically review unliquidated obligations to identify obligations that were valid. Further, the DC-DDD was unable to reconcile unliquidated obligations. Upon discussion with DC-DDD management, the FY 2006 amount of unliquidated obligations did not represent actual obligations to pay but an estimate of unpaid obligations. However, management stated no process exists to identify and report unliquidated obligations. The DC-DDD needs sufficient internal controls to ensure SSA does not under- or over-fund its operations.

CONCLUSION AND RECOMMENDATIONS

Generally, the DC-DDS and DC-DDD had improved their internal controls over accounting and reporting of administrative costs. However, DC-DDS needed to work with SSA to strengthen the internal controls over travel, telephone, occupancy, and guard service costs. Furthermore, the DC-DDD needed to maintain supporting documentation to ensure the reasonableness of amounts reported as unliquidated obligations.

We recommend SSA:

1. Request a refund of \$2,750 for travel costs inappropriately charged to SSA.
2. Work with the DC-DDD to obtain support from Office of Property Management for the remainder of the FY 2006 telephone costs and request a refund for telephone costs where supporting documentation could not be obtained.

3. Provide funding of \$183,501 to the DC-DDD for the FY 2006 occupancy and guard service costs that were not claimed. Furthermore, SSA should work with the DC-DDD to obtain support from DC-OPM to facilitate more accurate estimates for occupancy and guard service costs.
4. Request the DC-DDD to reduce the unliquidated medical obligations by \$176,846 and the unliquidated occupancy obligations by \$87,185.
5. Work with the DC-DDD to develop a process to determine actual costs or reasonable estimates related to unliquidated obligations.

AGENCY COMMENTS

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

STATE AGENCY COMMENTS

DC-DDS agreed with our recommendations. See Appendix D for the full text of the DC-DDS' comments.

OIG RESPONSE

We appreciate the comments received from SSA's regional office and the DC-DDS and believe the responses and planned actions adequately address our recommendations.



Patrick P. O'Carroll, Jr.

Appendices

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Agency Comments

APPENDIX D – State Agency Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

Acronyms

Act	<i>Social Security Act</i>
CE	Consultative Examination
DC-DDD	District of Columbia Disability Determination Division
DC-DDS	District of Columbia Department on Disability Services
DDS	Disability Determination Services
DC-DHS	District of Columbia Department of Human Services
DC-OPM	District of Columbia Office of Property Management
DI	Disability Insurance
FY	Fiscal Year
IBM	International Business Machines Corporation
OMB	Office of Management and Budget
POMS	Program Operations Manual System
RSA	Rehabilitation Services Administration
SAS	Statement on Accounting Standard
SSA	Social Security Administration
SSI	Supplemental Security Income

Scope and Methodology

SCOPE

To achieve our objectives, we:

- Reviewed applicable Federal laws and regulations, pertinent parts of the Social Security Administration's (SSA) Program Operations Manual System and other criteria relevant to administrative costs claimed by the District of Columbia's Disability Determination Division (DC-DDD).
- Interviewed staff and officials at the DC-DDD and District of Columbia's Department on Disability Services (DC-DDS).
- Evaluated and tested internal controls regarding accounting and financial reporting.
- Examined specific administrative expenditures (Personnel, Medical Services, Indirect Costs, and All Other Nonpersonnel Costs) incurred and claimed by the DC-DDD for Fiscal Year (FY) 2006. We used statistical sampling to select expenditures to test for documentation of the Medical Services, Personnel, and All Other Nonpersonnel Costs.
- Examined and recalculated indirect costs claimed by the DC-DDD for FY 2006.

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

Additionally, we relied on the DC-DDD I-Levy¹ Case Processing System (I-Levy) records for our consultative examination (CE) analysis. We believe, for this analysis, the I-Levy records were sufficiently reliable. We performed our audit work at the DC-DDS and DC-DDD offices in Washington, D.C. We conducted fieldwork from July through September 2007. Our audit was conducted in accordance with generally accepted government auditing standards.

¹ Disability claims are processed on an IBM Corporation Model AS/400 computer using I-Levy software.

METHODOLOGY

Our sampling methodology encompassed the four general areas of costs reported on the Form SSA-4513: (1) Personnel, (2) Medical, (3) Indirect, and (4) All Other Nonpersonnel Costs. We obtained electronic records that supported the Personnel, Medical, and All Other Nonpersonnel Costs for FY 2006. These records were obtained from the District of Columbia's Relational Statewide Accounting and Reporting System used by the District of Columbia's Department on Disability Services for the preparation of the Form SSA 4513. Analytical work was conducted for the indirect costs (see the indirect cost section below). We obtained I-Levy records for our comparison of CE fees per the DC-DDD fee schedule to the Medicare fee schedules for Calendar Years 2006.

Personnel Costs

We selected 2 pay periods in May 2006. We performed tests for 100 percent of the DC-DDD employees for the 2 pay periods. Also, we tested DC-DDD payroll records to ensure it correctly paid employees and adequately documented these payments.

For medical consultant costs, we selected the month of May 2006. We performed tests for 100 percent of the DC-DDD medical consultants. Also, we tested the medical consultant records to ensure they were paid correctly in accordance with approved contracts.

Medical Costs

We sampled 50 items using a stratified random sample of medical costs based on the proportion of medical evidence of record and CE costs to total medical costs claimed. Also, we reviewed two additional FY 2006 medical evidence records that were included in the DC-DDD accounting records. Additionally, we conducted analytical work using I-Levy² data records to determine if the DC-DDD rates exceeded the highest rate paid by Federal or other agencies in the District of Columbia for the same or similar types of service.

Indirect Costs

We calculated the DC-DDD indirect costs for FY 2006 by applying the federally approved rates³ to the payroll cost bases (direct salaries and wages including all fringe benefits). For the Form SSA-4513 reports, for the period ended March 31, 2007, we applied the final rate of 41.9 percent for the period October 1, 2005 to September 30, 2006.

² Disability claims are processed on an IBM Corporation Model AS/400 computer using I-Levy software.

³ Rates approved by the District of Columbia's Department on Disability Services.

All Other Nonpersonnel Costs

We selected a stratified random sample of 50 items from the All Other Nonpersonnel Costs category (except for occupancy). Before selecting the sample items, we stratified the transactions in the nine cost categories. We then distributed the 50 sample items between categories based on the proportional distribution of the costs. Also, we conducted a 100 percent review for the following expenditure categories.

- Occupancy costs – seven items from the DC-DDD accounting records.
- Security – three items from the DC-DDD accounting records.
- Telephone – five items from the DC-DDD accounting records.

Subsequent Events

On October 19, 2007, the Chief of the DC-DDD was provided with a 15-day notice of termination of his employment with the District Department on Disability Services. The Chief was employed under the provisions of the Management Supervisory Service, which is an at-will employment status. The Human Capital Administrator for the District of Columbia, Department on Disability Services, informed us that termination can be initiated without cause and this termination was for non-disciplinary reasons. Also, in November 2007, two District of Columbia employees were arrested for a real property tax adjustment refund scheme. To satisfy ourselves that there was no fraudulent activity within the DC-DDD by the Chief of the DC-DDD or other individuals we interviewed several key personnel in accordance with Statement on Accounting Standard Number 99 – Consideration of Fraud in a Financial Statement Audit.

Agency Comments

Thank you for the opportunity to respond to the recommendations provided in the draft report on the District of Columbia's Disability Determination Division's Internal Controls over the Accounting and Reporting of Administrative Costs (A-15-08-18019) for fiscal years 2005 and 2006. Status of the recommendations contained in the report are shown below. The information shown incorporates the DC DDS response to the draft report.

Recommendation #1:

Request a refund of \$2,750 for travel costs inappropriately charged to SSA.

Response:

The DC DDD concurs with this recommendation. We have asked the DDS to provide us with the refund of \$2,750 by March 31, 2008.

SSA will follow up on this action item.

Recommendation #2:

Work with the DC DDD to obtain support from Office of Property Management (OPM) for the remainder of the FY 2006 telephone costs and request a refund for telephone costs where supporting documentation could not be obtained.

Response:

The DC-DDD obtained support for \$9,100 of the \$47,203 in telephone expenses charged in FY 2006. We are working with the DC-DDD to obtain additional supporting documentation from DC-OPM to resolve the remaining unsupported charges of \$38,103. A refund will be requested for any unsupported costs.

SSA will follow up on this action item.

Recommendation #3

Provide funding of \$183,501 to the DC-DDD for the FY 2006 occupancy and guard service costs that were not claimed. Furthermore, SSA should work with the DC-DDD to obtain support from DC-OPM to facilitate more accurate estimates for occupancy and guard service costs.

Response:

The DC DDD concurs with this recommendation. We have requested that the DC-DDD submit an amended fiscal report (SSA-4513) for FY 2006 that includes the charges of \$183,501 for these costs. Upon receipt of the amended SSA-4513 report, SSA will fund these costs. We are working with the DC DDD to obtain support from DC-OPM to facilitate more accurate estimates for occupancy and guard service costs.

SSA will follow up on this action item.

Recommendation #4

Request the DC DDD to reduce the unliquidated medical obligations by \$176,846 and the unliquidated occupancy obligations by \$87,185.

Response:

The DC DDD concurs that unliquidated medical obligations should be reduced by \$176,846. We have requested the DC-DDD to submit an amended SSA-4513 report for FY 2006 which removes the unliquidated medical obligations. Upon receipt of the amended SSA-4513 report, SSA will reduce these obligations.

The DC DDD has agreed to submit an amended SSA-4513 for FY 2006 to remove the unliquidated occupancy obligations of \$87,185. Upon receipt of the amended SSA-4513 report, SSA will reduce these obligations.

SSA will follow up on this action item.

Recommendation #5

Work with the DC-DDD to develop a process to determine actual costs or reasonable estimates related to unliquidated obligations.

Response:

We will work with the DC DDD to develop a process to determine actual cost or reasonable estimates related to unliquidated obligations. The DC DDD concurs that this should be a joint ongoing effort.

SSA will follow up on this action item.

Should you have any questions regarding this response, please contact Paul Armstrong at 215-597-9831 in the Philadelphia Region Center for Disability Programs.

/s/
Laurie Watkins

State Agency Comments

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Department on Disability Services

March 6, 2008

Mr. Patrick P. O'Carroll, Jr., Inspector General
Social Security Administration
Office of the Inspector General
Office of Audit
Baltimore, MD 21235-0001

Dear Mr. O'Carroll:

The following are the responses and correction action plan for the recommendations included in the District of Columbia's Disability Determination Division's (DDD) Internal Controls over the Accounting and Reporting of Administrative Costs (A-15-08-18019) for the Department on Disability Services (DDS):

1. Request a refund of \$2,750 for travel costs inappropriately charged to SSA.

DC-DDS Response

We concur with this recommendation. A check will be issued to SSA and forward to Paul Armstrong by March 31, 2008.

2. Work with the DC-DDD to obtain support from Office of Property Management (OPM) for the remainder of the FY 2006 telephone costs and request a refund for telephone costs where supporting documentation could not be obtained.

DC-DDS Response

We concur with this recommendation. If available, additional documentation will be submitted to SSA by April 30, 2008.

3. Provide funding of \$183,501 to the DC-DDD for the FY 2006 occupancy and guard service costs that were not claimed. Furthermore, SSA should work with the DC-DDD to obtain support from DC-OPM to facilitate more accurate estimates for occupancy and guard service costs.

GOVERNMENT OF THE DISTRICT OF COLUMBIA
OFFICE OF THE CHIEF FINANCIAL OFFICER



Department on Disability Services

DC-DDS Response

We concur with this recommendation. DDS will revise the FY 2006 SSA-4513 report for the period ending March 31, 2008 due April 30, 2008 to reflect the additional occupancy costs. DDS will continue to work with the District's Office of Property Management to obtain accurate occupancy and guard services costs.

4. Request the DC-DDD to reduce the unliquidated medical obligations by \$176,846 and the unliquidated occupancy obligations by \$87,185.

DC-DDS Response

We concur with this recommendation. DDS will revise the FY 2006 SSA-4513 for the period ending March 31, 2008 due April 30, 2008 to reduce the unliquidated medical obligations and unliquidated occupancy obligations.

5. Work with the DC-DDD to develop a process to determine actual costs or reasonable estimates related to unliquidated obligations.

DC-DDS Response

We concur with this recommendation. A representative from the Office of the Chief Financial Officer (OCFO) and the DDS administration will work with the DC-DDD to determine a reasonable estimate related to unliquidated obligations.

If you have any questions or require additional information, please contact Ted Daniels, Acting Deputy Director, Rehabilitation Services Administration at (202) 442-8686 or Delicia Moore, Agency Fiscal Officer, DDS at (202) 730-1551.

Sincerely,

/S/

Delicia Moore
Agency Fiscal Officer

OIG Contacts and Staff Acknowledgments

OIG Contacts

Kristen Schnatterly, Acting Audit Director, Financial Audit Division

Mark Meehan, Acting Audit Manager

Acknowledgments

In addition to those named above:

Ronald Anderson, Auditor-in-Charge

Steven Sachs, Senior Auditor

Brennan Kraje, Statistician

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