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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**INDIRECT COSTS CLAIMED BY  
THE NEW MEXICO DISABILITY  
DETERMINATION SERVICES**

September 2009      A-06-09-19122

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**AUDIT REPORT**

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## 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: September 30, 2009

Refer To:

To: Ramona Schuenemeyer  
Regional Commissioner  
Dallas

From: Inspector General

Subject: Indirect Costs Claimed by the New Mexico Disability Determination Services  
(A-06-09-19122)

### OBJECTIVE

Our objective was to determine whether the indirect costs claimed by the New Mexico Disability Determination Services (NM-DDS) for Federal Fiscal Years (FY) 2007 and 2008 were allowable and properly allocated.

### 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, and/or disabled.

The Social Security Administration (SSA) is responsible for implementing policies for the development of claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by disability determination services (DDS) in each State or other responsible jurisdiction, in accordance with Federal regulations.<sup>1</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding

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<sup>1</sup> 20 C.F.R. part 404, subpart Q and part 416, subpart J.

authorization.<sup>2</sup> The expenditures include both direct and indirect costs.<sup>3</sup> At the end of each quarter of the FY, each DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and unliquidated obligations.

The New Mexico Division of Vocational Rehabilitation (NM-DVR) serves as NM-DDS' parent agency. NM-DVR provides NM-DDS with various administrative services, such as accounting and procurement. Costs associated with these services are called indirect costs. Federally assisted programs bear their fair share of indirect costs except where restricted or prohibited by law.<sup>4</sup> Federal cost standards state that expenditures may be allocated to a particular cost objective if the goods or services are charged in accordance with the relative benefits received.<sup>5</sup> Each year, NM-DVR prepares and submits an indirect cost rate proposal to the U.S. Department of Education, the cognizant Federal agency, for approval. The indirect cost rate proposal is prepared based on the actual costs incurred 2 FYs prior. For example, the FY 2007 proposal was prepared based on actual costs from FY 2005. At the request of the cognizant agency, NM-DVR uses the "simplified or single rate method" in formulating the indirect cost rate. Federal cost standards allow use of this method whenever a governmental grantee has only one major function encompassing a number of individual projects or activities that benefit from its indirect costs to approximately the same degree.<sup>6</sup>

NM-DVR allocates indirect costs aggregated in indirect pools to three of its programs: Rehabilitation Services, Special Programs (Program Development and Support),<sup>7</sup> and DDS. The indirect costs consist of services provided by the Assistant Secretary for Vocational Rehabilitation, the Administrative Services division, and the Information Services division. The indirect cost rate is then derived by dividing the indirect cost pool total by the total direct base (direct costs of the Rehabilitation Services, Program Development and Support, and DDS). See Appendix B for our audit scope and methodology and Appendix C for information on NM-DVR's organizational structure.

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<sup>2</sup> 20 C.F.R. §§ 404.1626 and 416.1026.

<sup>3</sup> Direct costs can be identified specifically with a particular cost objective (Office of Management and Budget [OMB] Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, § E.1). Indirect costs arise from activities that are common to multiple programs but are not readily assignable to these programs without effort disproportionate to the results achieved (OMB Circular A-87, Attachment A, § F.1).

<sup>4</sup> OMB Circular A-87, § A.1.

<sup>5</sup> OMB Circular A-87, Attachment A, § C.3.a.

<sup>6</sup> U.S. Department of Education *Indirect Cost Determination Guidance for State and Local Government Agencies*, Section I D., 1997.

<sup>7</sup> For FY 2007, this program was referred to as *Special Programs*; for FY 2008, it was referred to as *Program Development and Support*.

	FY 2005	FY 2006
<b>Actual Direct Cost Base</b>		
Rehabilitation Services	\$19,974,558	\$19,888,654
Program Development and Support	3,353,688	3,510,280
Disability Determination Services	9,624,760	9,387,056
<b>Total Direct Base</b>	<b>\$32,953,006</b>	<b>\$32,785,990</b>
<b>Indirect Cost Pools</b>		
Executive Services	\$619,145	\$650,259
Executive Support Services	168,037	21,337
Administrative Services Director	168,406	196,781
Financial Management	789,906	916,315
Personnel Services	216,795	270,326
General Expenditures and Procurement	616,613	595,942
Human Resources	251,653	241,562
Information Services	1,306,283	976,879
Grants and Contracts	199,887	453
Direct Programs Terminal Leave	25,476	31,014
Statewide Cost Allocation	366,454	382,348
<b>Total Indirect Pools</b>	<b>\$4,728,655</b>	<b>\$4,283,216</b>
<b>Indirect Rate = Total Indirect Pools/Total Direct Base</b>	<b>14.3%</b>	<b>13.1%</b>

SSA reimbursed NM-DVR for FY 2007 indirect costs by multiplying actual direct costs by 14.3 percent and FY 2008 indirect costs by multiplying actual direct costs by 13.1 percent. As of December 31, 2008,<sup>8</sup> SSA indirect cost reimbursements for FYs 2007 and 2008 totaled \$1.25 million and \$1.09 million, respectively.

## RESULTS OF REVIEW

Indirect costs claimed for reimbursement under SSA's disability programs were generally allowable for FYs 2007 and 2008 and paid in accordance with the cost rates approved by the cognizant agency. In most instances, NM-DVR's use of the single rate method to allocate indirect costs was appropriate because it appeared NM-DDS benefited from the related services to the same degree as Rehabilitation Services and Special Programs.

However, based on discussions with NM-DVR and NM-DDS personnel and review of available information, use of the single rate method resulted in excessive Information Services, General Expenditures and Procurement, and Human Resources cost allocations to NM-DDS relative to the benefits actually received.

<sup>8</sup> Based on Form SSA-4513 as of December 31, 2008.

Indirect Cost Pool	Total FY 07 & 08 Indirect Costs Attributable to the Cost Pool	Percentage of SSA's Total Indirect Cost Reimbursements
Information Services	\$593,922	25.4
General Expenditures and Procurement	314,661	13.4
Human Resources	127,999	5.5
Total	\$1,036,582	

NM-DVR implemented the single rate method at the direction of the cognizant agency. However, basic application of this allocation method was not appropriate in these three instances because NM-DDS did not benefit from these cost pools to the same degree as the other NM-DVR divisions. For FYs 2007 and 2008, SSA reimbursed NM-DVR just over \$1 million for indirect costs related to these three cost pools. NM-DVR personnel stated that a lack of sufficient staffing prevented them from considering an alternative method of allocating these costs. Adjusting the allocation methodology to reflect that NM-DDS did not benefit from these services to the same degree as the other NM-DVR programs would have resulted in a reduction to the approximately \$1 million in indirect cost reimbursements paid by SSA. As long as NM-DVR continues to use the single rate method to allocate Information Services, General Expenditures and Procurement, and Human Resources costs and does not adjust the cost pool amounts downward to reflect the actual level of support provided, excessive indirect costs will continue to be allocated to NM-DDS.

### INFORMATION SERVICES COSTS

The Information Services cost pool supports NM-DVR by developing and maintaining information technology systems; providing email service to its programs; storing information; backing up financial, payroll, and training databases; and providing support for interfaces between NM-DVR and the Department of Finance and Administration financial system. NM-DVR allocated Information Services costs to three of its programs based on a percentage of their total direct costs, resulting in NM-DDS indirect cost allocations totaling \$593,922 for FYs 2007 and 2008. Federal cost standards state this method of allocation is appropriate only if activities benefit from the indirect expenditures to approximately the same degree. However, NM-DDS did not benefit from Information Services expenditures to the same degree as the other two NM-DVR programs. Illustrations of how support provided to the NM-DDS differed from the other NM-DVR programs follow.

- SSA purchases the computer equipment and software NM-DDS uses. This equipment interfaces with SSA's systems. Because of the sensitivity of information accessible through SSA's systems, the software installed on NM-DDS computers contains an electronic firewall that restricts access to or from NM-DVR computer systems. As a result, NM-DDS has limited access to NM-DVR financial systems and training modules.

- NM-DDS employs two full-time information technology support staff whose salaries are included in direct costs already reimbursed by SSA. Their responsibilities include keeping NM-DDS computer systems running and updated, maintaining the network and workstations, and maintaining the mainframe and printers.
- SSA provides NM-DDS computer systems with both email access and Internet service. The Information Services indirect cost pool includes charges for these same services, which are neither available to nor accessible by NM-DDS because of the SSA firewall.

Based on the level of support Information Services actually provided, use of the single rate method resulted in excessive indirect cost allocations to the NM-DDS.

### **GENERAL EXPENDITURES AND PROCUREMENT COSTS**

The General Expenditures and Procurement cost pool captures costs incurred by NM-DVR to provide guidance and consultation concerning building leases, develop specifications for new buildings or new office locations, coordinate and manage vehicle leases with the State's General Services Department, and coordinate leases of telecommunications and photocopying equipment. Additionally, NM-DVR provides guidance and consultation on procurement of goods and services. NM-DVR allocated General Expenditures and Procurement costs to its three programs based on a percentage of their total direct costs, resulting in NM-DDS indirect cost allocations totaling \$314,661 for FYs 2007 and 2008. However, NM-DDS did not benefit from General Expenditures and Procurement costs to the same degree as the other two NM-DVR programs.

For example, NM-DDS had not leased a vehicle from the State in 3 years. Further, NM-DDS employees, whose salaries and benefits are fully funded by SSA, initiate and administer the procurement of goods and services for a majority of the items they require. Once goods have been procured, NM-DDS provides information to the parent agency for administrative review and processing through the State system. Based on the level of support General Expenditures and Procurement actually provided, use of the single rate method resulted in excessive allocations to NM-DDS.

### **HUMAN RESOURCE COSTS**

The Human Resource cost pool consists of NM-DVR expenditures for training new employees, conducting the "Rehab Academy" (for developing NM-DVR counselors and technicians) and overseeing the education assistance program and budget. The education assistance program pays for State employees to complete bachelor's and, in some instances, master's degrees. Once employees get their degrees, they become eligible for counselor positions. NM-DVR allocated Human Resource costs to its three programs based on a percentage of their total direct costs, resulting in NM-DDS indirect cost allocations totaling \$127,999 for FYs 2007 and 2008. However, NM-DDS did not benefit from Human Resource expenditures to the same degree as the other two NM-DVR programs.

Discussions with NM-DDS staff indicated that most training provided to NM-DDS personnel is either obtained on-line, via the SSA-provided Internet, or purchased directly by NM-DDS. SSA fully reimburses these costs. According to NM-DDS staff, most of the training available to NM-DVR employees and staff through the NM-DVR Intranet is not relevant to DDS operations, and most training modules are not available for NM-DDS access because of SSA firewall restrictions. The Staff Coordinator stated that the training provided to NM-DDS employees consists of a new employee orientation, safety training, violence prevention training, and employment discrimination training. There are no other services provided to NM-DDS, and there is minimal communication with the Staff Coordinator. Finally, SSA receives no benefit from the State's education assistance program. These expenditures provide college degrees exclusively for Rehabilitative Services counselors and should not be allocated to NM-DDS. Based on the level of support actually provided, use of the single rate method to allocate Human Resources costs resulted in excessive allocations to NM-DDS.

## **CONCLUSION AND RECOMMENDATION**

Indirect costs claimed for reimbursement under SSA's disability programs were generally allowable and paid in accordance with the cost rates approved by the cognizant agency. However, NM-DVR allocated costs to NM-DDS from three indirect cost pools in amounts that were not equitable considering the relative benefit received. NM-DVR used the single rate method to allocate these costs and did not make any adjustments to reflect that many of the services provided by Information Services, General Expenditures and Procurement, and Human Resources were either already provided by SSA or were not used by NM-DDS. NM-DDS will continue to receive excess indirect cost allocations as long as NM-DVR continues to allocate these indirect cost pools using an unadjusted single rate method.

We recommend that SSA ensure NM-DDS bears no more than its fair share of indirect costs by working with NM-DVR and the cognizant agency to develop and implement a methodology that allows for downward adjustments to Information Services, General Expenditures and Procurement, and Human Resources indirect cost pool amounts to reflect the actual degree of support provided to NM-DDS.

## **SSA COMMENTS**

SSA agreed with our recommendation and will work with NM-DDS and NM-DVR to develop more reasonable cost sharing methods. See Appendix D for the full text of the Agency's comments.

## **NM-DVR COMMENTS**

NM-DVR agreed that NM-DDS should bear no more than its fair share of indirect costs and stands ready to work with both SSA and the cognizant agency. NM-DVR provided

several observations indicating disagreement with information presented in the report. See Appendix E for the full text of NM-DVR's comments.

## OIG RESPONSE

We appreciate the comments from SSA and NM-DVR. We are encouraged that both parties indicate willingness to work together to ensure NM-DDS bears no more than its fair share of indirect costs. NM-DVR stated its belief that information in the report was inaccurate or unsubstantiated. NM-DVR stated it was provided no interview protocol and no opportunity to clarify statements made. During the audit, we interviewed several NM-DVR and NM-DDS officials including the NM-DVR Director, Chief Information Officer, Human Resources Manager, Staff Development Coordinator, Administrative Operations Manager, and the NM-DDS Administrator. Information obtained during interviews with management and staff was to help us understand the cost allocation documentation provided. The interviews were not a significant factor in formulating our conclusion. Other factors included available financial data and indirect cost pool documentation obtained during the audit.

The NM-DVR stated that costs for Rehabilitation Services Unit staff to obtain degrees were removed from the indirect cost pool. We learned about the degree program while discussing the Human Resources indirect cost pool with the NM-DVR Staff Development Coordinator. Unlike the other NM-DVR components, SSA pays the costs of most training provided to NM-DDS employees and receives no benefit from either the Rehab Academy or the education assistance program, both managed by Human Resources (now referred to as the Staff Development Unit).

NM-DVR stated the report did not completely portray the Information Services support it provides to NM-DDS. NM-DVR also stated the Information Services provides/maintains several email groups for NM-DDS as well as an interface with the State Financial System. NM-DVR further stated it is providing the NM-DDS a separate network connection in its Albuquerque facility for use by visiting NM-DVR employees and maintains an employee Website where NM-DDS employees can access on-line training. We appreciate the technological support Information Services provides the NM-DDS. However, we believe the costs associated with providing these items is a relatively small portion of the more than \$2.2 million charged to the Information Services cost pool. Further, the costs associated with the current installation of a network connection in the NM-DDS have no bearing on the FY 2005 and FY 2006 actual costs used in determining the FY 2007 and 2008 indirect cost rates.



Patrick P. O'Carroll, Jr.

# *Appendices*

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[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Organization Chart

[APPENDIX D](#) – SSA Comments

[APPENDIX E](#) – New Mexico Division of Vocational Rehabilitation Comments

[APPENDIX F](#) – 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
NM-DDS	New Mexico Disability Determination Services
NM-DVR	New Mexico Division of Vocational Rehabilitation
OMB	Office of Management and Budget
SSA	Social Security Administration
SSI	Supplemental Security Income

# Scope and Methodology

We reviewed the indirect costs reported by the New Mexico Division of Vocational Rehabilitation (NM-DVR) and its component, the New Mexico Disability Determination Services (NM-DDS) on its State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) for Federal Fiscal Years (FY) 2007 and 2008. We reviewed NM-DVR and NM-DDS' compliance with applicable laws and regulations over the allowability of indirect costs.

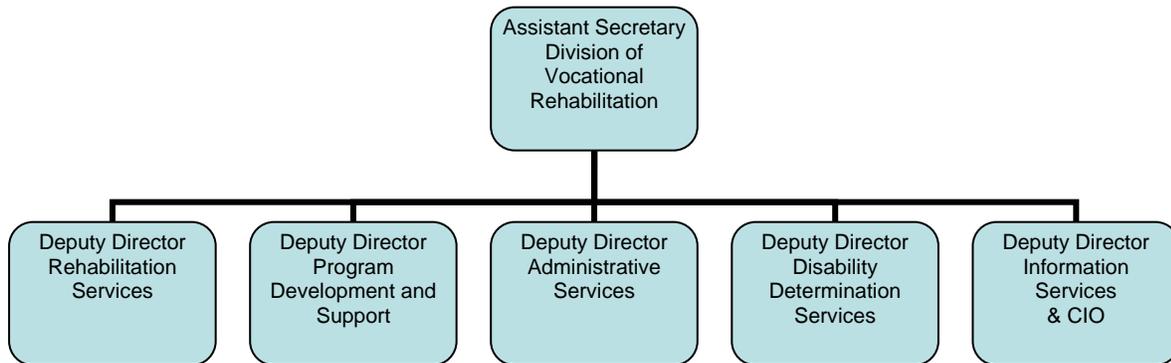
To accomplish our objectives, we:

- Reviewed Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, the Code of Federal Regulations, United States Code, the Social Security Administration's (SSA) Program Operations Manual System, and NM-DDS Cost Allocation Plan.
- Interviewed employees from SSA, NM-DVR, and NM-DDS.
- Examined the indirect costs incurred and claimed by NM-DVR.
- Reviewed the supporting documentation used to formulate the allocation methodology used to distribute costs to the NM-DVR.
- Reviewed workpapers and source documentation used in preparing the indirect cost proposal for FYs 2007 and 2008.
- Compared the description of services provided by NM-DVR to the services received by NM-DDS.
- Reviewed Forms SSA-4513 for FYs 2007 and 2008

We tested the data obtained for our audit and determined they were sufficiently reliable to meet our objective. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We performed our audit from January through June 2009 at the NM-DVR in Santa Fe, New Mexico; NM-DDS in Albuquerque, New Mexico; and SSA regional office in Dallas, Texas.

## Organization Chart

### New Mexico Division of Vocational Rehabilitation Organization Chart



There are five programs under the Assistant Secretary – Division of Vocational Rehabilitation (NM-DVR). In calculating the indirect cost rate, NM-DVR divides the *indirect costs* of the Assistant Secretary – Division of Vocational Rehabilitation, Deputy Director – Administrative Services, and Deputy Director – Information Services & CIO by the *total direct costs* of the Deputy Director – Rehabilitation Services, Deputy Director – Special Programs (Program Development and Support),<sup>1</sup> and Deputy Director – Disability Determination Services. This becomes the indirect cost rate that is applied to the New Mexico Disability Determination Services.

The NM-DVR uses the “simplified, or single rate method” in formulating the indirect cost rate. This method is allowable whenever a governmental grantee has only one major function encompassing a number of individual projects or activities that benefit from its indirect costs to approximately the same degree.<sup>2</sup>

<sup>1</sup> For FY 2007, this program was referred to as *Special Programs*; for FY 2008, it was referred to as *Program Development and Support*.

<sup>2</sup> U.S. Department of Education *Indirect Cost Determination Guidance for State and Local Government Agencies*, Section I D., 1997.

## SSA Comments

**Sent:** Wednesday, September 09, 2009 3:31 PM  
**To:** ^Audit Correspondence  
**Cc:** ^DCO OPSOS AUDIT CONTROLS; ||DA ARC MOS; Johnson, Pam RO Dallas; Carter, Val  
**Subject:** Dallas Reply: Signed Formal Draft Report (A-06-09-19122)

Pat,

We appreciate the opportunity to comment on the Signed Formal Draft Report (A-06-09-19122), Indirect Costs Claimed by the New Mexico Disability Determination Services. We would like to thank the OIG Audit staff in the Dallas Region for the excellent manner in which they organized and performed this audit. We appreciate their efforts to keep all parties informed of their progress during the audit.

Our response to the recommendation contained in the narrative report follows:

OIG Recommendation: We recommend that SSA ensure the New Mexico Disability Determination Services (NM-DDS) bears no more than its fair share of indirect costs by working with the New Mexico Division of Vocational Rehabilitation (NM-DVR) and the cognizant agency to develop and implement a methodology that allows for downward adjustments to Information Services, General Expenditures and Procurement, and Human Resources indirect cost pool amounts to reflect the actual degree of support provided to NM-DDS.

Response: We agree that these cost pools require further analysis and justification. We will work with the New Mexico DDS and DVR to develop more reasonable cost sharing methods.

If members of your staff have any questions, please have them call Irving Wilkerson or Roberta Irwin at 214-767-4281 in Management and Operations Support, Center for Disability.

Ramona

New Mexico Division of Vocational  
Rehabilitation Comments



**NEW MEXICO  
DIVISION OF  
VOCATIONAL  
REHABILITATION**

**Public Education Department**

**BILL RICHARDSON**  
GOVERNOR

**DR. VERÓNICA C. GARCÍA**  
SECRETARY OF EDUCATION

**RALPH VIGIL**  
DIRECTOR FOR  
VOCATIONAL REHABILITATION

September 21, 2009

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

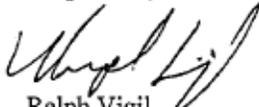
Dear Mr. O'Carroll:

Please find enclosed the New Mexico Division of Vocational Rehabilitation's response to the validity and reasonableness of the information presented in the draft report, *Indirect Costs Claimed by the New Mexico Disability Determination Services (A-06-09-19122)*.

Thank you for this opportunity to provide written comments. I understand that these comments may be included as an appendix to the final audit report.

Please feel free to contact me or Sherry Garcia, Deputy Director for Administrative Services, at (505) 954-8564 if you have any questions.

Respectfully submitted,



Ralph Vigil  
Director

Enclosure

cc: Ramona Schuenemeyer, Regional Commissioner Dallas  
Daniel Roper, Administrator, New Mexico Disability Determination Services  
Sherry Garcia, DVR Deputy Director for Administrative Services  
Jessica Lucero, Chief Financial Officer, DVR

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Response to Indirect Cost Audit of the  
New Mexico Division of Vocational Rehabilitation

By the

Social Security Administration Office of the Inspector General  
September 2009

Thank you for the opportunity to respond to findings in this report. The New Mexico Division of Vocational Rehabilitation (NMDVR) appreciates the work that went into this investigation and the subsequent report. What follows is a response and discussion of concerns that this report elicits.

The Simplified or Single Rate Method is the most appropriate method for the NMDVR to utilize since tracking costs by relative benefit which from day to day change depending on the needs of each of the grant programs would demand record keeping and human resources that would significantly add to the indirect cost pool and increase costs for all programs.

Under "Results of Review" the following statements appear: "Indirect costs claimed for reimbursement under SSA's disability programs were generally allowable for FYs 2007 and 2008 and paid in accordance with the cost rates approved by the cognizant agency. In most instances, NM-DVR's use of the single rate method....was appropriate because it appeared NM-DDS benefited from the related services to the same degree as Rehabilitation Services and Special Programs."

The report notes four instances, where based on discussions and review of available information (neither of which are documented or verified) the single rate method resulted in excessive cost allocations due to the benefits actually received. Unfortunately, we contend that much of the anecdotal information is inaccurate and/or unsubstantiated in the report. No copy of the interview protocol, questions asked or answers given were provided in the report.

The services identified as excessive in the report based on benefit include: Information Services; General Expenditures, Procurement and Human Resources. For the purposes of this clarification response, these services will be discussed in the reverse order.

#### **Human Resources**

This section of the report addresses what the agency now calls the Staff Development Unit (SDU) rather than Human Resources (HR), which manages personnel and payroll functions. This is an important distinction as the HR Unit provides substantial support to the DDS in processing recruitment and selection of employees. Additionally, they, along with the Legal Services Unit provide direction and support in disciplinary actions, collective bargaining matters, and in other relevant human resources functions. None of these functions were mentioned in the report; however, it is important to highlight their importance to the DDS.

The report identifies only some of the training functions provided by the Staff Development Unit and primarily those that are specifically for the Rehabilitation Services Unit (RSU). In addition, the report states that the costs for RSU staff to obtain required bachelors and master's degrees are part of the indirect cost pool (IDC). This is not the case. Registration fees and tuition paid for RSU staff is removed from the indirect cost pool.

What remains in the IDC pool is:

- SDU salaries and benefits,
- Training for staff in the indirect cost pool (a benefit organization-wide); and
- Training costs that are made available organization-wide and to the same degree for all programs. These include but are not limited to:
  - Sexual Harassment,
  - Civil Rights,
  - Violence in the Workplace;
  - Safety;
  - New Employee Orientation;
  - Mileage and Per Diem;
  - Fraud Prevention; and
  - Statewide Staff Meeting.

The budget for training comes from the basic support (RSU) grant, therefore by removing costs that directly benefit the RSU program, the remainder of the costs are allocated between the three direct programs (RSU, DDS and PDS). Frequently, the DDS requests that its staff be exempted from training and/or receive separate training from the NMDVR. Examples of these requests can be provided. Also, the SDU has developed a separate New Employee Orientation for the NM-DDS at management's request which is delivered at the DDS site.

#### **General Expenditures and Procurement:**

As with Staff Development, the list of services provided by these units is limited and the only tangible example of the inequitable services is vehicle leases. It is accurate that the DDS does not lease vehicles from the state. However, vehicle leases are only one assignment of one staff person's functions. The same staff person coordinates building leases and addresses building issues on behalf of the DDS. In addition, when DDS staff use a state vehicle obtained from the motor pool, the person who manages the vehicles must insure that those individuals have state driver's privileges (tracking whether they took the required driver's courses and whether they are current) and must receive, review and handle vehicle use reports from the Motor Pool. The latter is a service that is unnecessary for the other grant programs of the NMDVR. There are many more services provided under the General Services Management Unit (such as fixed asset management and surplus management) that were not mentioned and from which DDS benefits in direct proportion to their need.

The report describes services provided by the Procurement Unit. The services described are exactly the same for all grant programs. The Procurement Unit insures that:

- Items procured follow the Procurement Code,
- Requisition documents are reviewed, guidance provided, corrections requested and converted to purchase documents;
- When payment requests are received, they are reviewed and matched to the originating document; and
- Documents are processed to the next step.

The Procurement Unit includes contract purchases and request for proposals (RFP's) all of which benefit the DDS to the same extent that would be expected based on their portion of the IDC pool.

### **Information Services:**

There are three items selected as examples of the inequitable benefit to the DDS; however, these do not completely portray the support that is provided nor does it describe the efforts of the NMDVR over the years to provide support despite barriers which are out of the agency's control.

SSA does purchase computer equipment and software for the DDS. As with training of RSU staff, computer equipment purchased for RSU is excluded from the indirect cost pool. Computer support purchased for RSU systems is also excluded from the indirect cost pool. DDS, like PDS grant projects must purchase their own computer equipment and software in order to insure that Rehabilitation funds are not used to supplant these costs for these grant programs.

Due to SSA imposed restrictions to the NMDVR, support of DDS systems and assistance from the NMDVR Information Systems Unit (ISU) to interface the DDS case management system to the State financial system is often time consuming and creates more challenges than is experienced for the RSU case management system. There is no direct access to the DDS case management system and changes necessary from the system contractor, I. Levy, are not in the control of the NMDVR.

In addition, firewall restrictions require creative multi-prong effort on the part of the Information Systems staff to attempt to provide similar services to DDS staff as that of the other programs. Some of these issues have been ongoing for multiple years and require repeated attempts on the part of ISU staff to resolve or find work-rounds. This is not cost effective.

The DDS does employ two full-time information technology support staff. These two individuals, per requirements from the Governor's office report to the Chief Information Officer of the NMDVR. In addition, connectivity and interface issues between DDS and the State are handled by the ISU.

SSA does provide the NM-DDS with computer systems and email/internet access. The report inaccurately states that these services are not available or accessible by the DDS from the NMDVR. Between 20 and 30 DDS employees are members of email groups maintained on the NMDVR email system. It is not the firewall which prevents DDS staff from having access or being members of these email groups, but the decision of DDS management not to allow DDS staff to have access to the NMDVR email system. All information sent to DDS employees must be specially handled. The system preferred by DDS management is to send the information to an email group of DDS Managers who then forward the information to DDS staff. This creates barriers to provision of support to DDS staff but this is done to comply with wishes of the DDS Management.

One glaring element that is not mentioned in the report the fact that the Information Systems Unit interfaces daily payments from the DDS AS400 to the State Financial System. The ISU employee that created the interface (without support from I. Levy) reports that for FY 07 and FY 08, the DDS processed 112,646 payments through the interface compared to only 41,477 payments processed by RSU and PDS combined. ISU reports that time spent troubleshooting issues with payment through the interface are higher than for the rest of the agency due to the almost triple the volume of DDS payments processed and lack of access to the DDS system. If the automated interface created and maintained by ISU did not exist, the DDS would be responsible for entering each of these payments one by one into the state financial system. This would require duplicative effort on the part of the NM-DDS employees.

The ISU has been working with the DDS to install a separate second network connection in their building so that staff coming from the state office in Santa Fe can provide additional support to DDS staff in their building by having access to the agency network. This is extra support (both for the second network connection and for state office staff to maintain physical presence at the DDS) that is not similarly provided to the other grant projects in the agency. Again this has been requested by DDS Management and the NMDVR is meeting the request.

The ISU establishes and maintains security and passwords for each and every DDS employee to be able to access the State Human Resources and Financial Management System (SHARE). This support provided also addresses any problems with or changes to employee access passwords.

The ISU also created an automated employee actions system that benefits all DDS employees to the same extent as other employees in other units. This system called the DVR Staffing system, is the mechanism to process new employee hires, terminations, changes in employee status, need for access to the SHARE system, set passwords and track actions such as reasonable accommodation, family medical leave, grievances and all other personnel-related information. However, HR staff must enter all information for DDS due to the aforementioned access limitations.

The ISU maintains an employee website and network where the online training is distributed to all employees. SDU must send the links to these trainings via email due to the imposed restrictions on access. Appendix "A" contains a sample email sent to NM-DDS new staff with training links.

The myriad of services provided to the DDS and their employees by staff in the Indirect Cost Pool could not be provided without the infrastructure that is the Information Services Unit.

#### **Response to Conclusions and Recommendations:**

What follows is the NMDVR response to statements and recommendations made in this section:

**Statement:** Indirect costs claimed for reimbursement under SSA's disability programs were generally allowable and paid in accordance with the cost rates approved by the cognizant agency.

**Response:** The NMDVR agrees with this statement except to question the use of "generally allowable". There was no documentation given in the report that ANY costs claimed were unallowable. Unless documentation is provided, the NMDVR feels the statement should omit the word "generally".

**Statement:** Allocated costs from three indirect cost pools were not equitable considering the relative benefit received.

**Response:** It appears that this statement was based on interviews. No interview protocol was provided and no opportunity was given to NMDVR Management to provide clarification to statements made. Information provided earlier in this report attempts to provide clarification and additional information that may have been overlooked in interviews. The NMDVR does not agree with the statement as written.

**Statement:** NMDVR used the single rate method to allocate these costs and did not make any adjustments to reflect that many of the services provided by Information Services, General Expenditures and Procurement and Human Resources were either already provided by SSA or were not used by the NM-DDS.

**Response:** The NMDVR agrees that the single rate method was used to allocate indirect costs. This is in alignment with the IDC Agreement as negotiated with the cognizant agency. The NMDVR strongly disagrees with the statement that the NMDVR made no adjustments to the IDC Pool costs. The NMDVR has provided the IDC Proposal document that would show excluded costs and provided information during interviews that costs which are specific to one activity are not included in the IDC Pool.

**Recommendation:** It is recommended that SSA ensure NM-DDS bears no more than its fair share of indirect costs by working with NM-DVR and the cognizant agency to develop and implement a methodology that allows for downward adjustments.

**Response:** The NMDVR agrees that NM-DDS should bear no more than its fair share of indirect costs. The NMDVR is unsure what responsibilities are suggested to the NMDVR by the direction that "SSA work with the NMDVR and the cognizant agency to develop and implement a methodology that allows for downward adjustments"; however, NMDVR staff stands ready to work cooperatively with each entity.

Additionally, the NMDVR plans to do the following:

- Obtain training for staff preparing the IDC Proposal to insure that appropriate methods and preparation occurs.
- Prepare and deliver training for indirect cost pool staff on coding indirect/direct on purchase requisitions.
- Provide a final copy of the SSA OIG Audit and the NMDVR response to the cognizant agency and ask for guidance to affect transparency in our actions.

Thank you for this opportunity to respond to these findings.

Appendix A

Sample email from Staff Development to provide training links to NM-DDS New Employees

**Email from Staff Development providing training links for NM-DDS Employees**

**From:** [REDACTED]  
**Sent:** Friday, August 14, 2009 9:37 AM  
**To:** name omitted@ssa.gov  
**Cc:** [REDACTED]  
**Subject:** Hello and Welcome

Greetings, Name Omitted!

I would like to take this opportunity to welcome you to the New Mexico Division of Vocational Rehabilitation (DVR); the state agency where you can make a difference and love your job!

I'm [REDACTED], the Staff Development Specialist for the agency.

I'm writing to let you know that as a new DDS employee, there is some required training available to you. This includes:

\* New Employee Orientation- **Tuesday, August 25, 2009**

12:30 p.m. -4:30 p.m.

DDS Large Conference Room

\* Prevention of Sexual Harassment in the Workplace (computer based training)

<http://training.newmedialearning.com/psh/nmdeptvocrehab/>

\* Preventing Employment Discrimination (computer based training)

<http://training.newmedialearning.com/ped/nmdeptvocrehab/>

\* Workplace Violence Prevention (computer based training)

You will receive an email from "Workplace Answers" for the **Workplace Violence Prevention CBT**. Please do not delete this link, as you will need it to access the training.

The Computer Based Trainings (CBT's) will be taken at your desk. **To Access your CBT's:** Click on the links provided above. When you have finished the training, please print off copies of your Certificates of Completion. Sign the Certificates and give the original to your supervisor for your personnel file, keep a copy for yourself and send an original to: [REDACTED]

Once again, welcome to DVR! I know this is a lot of information, so you may want to print a copy of this email for future reference. Please do not hesitate to contact me if you have any questions. My number is [REDACTED] or you can reach me by e-mail at [REDACTED]. If you are unable to reach me, please feel free to contact [REDACTED] at [REDACTED].

For questions related to benefits, please contact [REDACTED]  
[REDACTED]

## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Ron Gunia, Director, Dallas Audit Division

Jason Arrington, Audit Manager

### ***Acknowledgments***

In addition to those named above:

Warren Wasson, Senior Auditor

For additional copies of this report, please visit our web site at [www.ssa.gov/oig](http://www.ssa.gov/oig) or contact the Office of the Inspector General's Public Affairs Staff Assistant at (410) 965-4518. Refer to Common Identification Number A-06-09-19122.

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Chairman and Ranking Minority Member, Senate Special Committee on Aging  
Social Security Advisory Board

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The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

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OA conducts 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 reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

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