

---

**OFFICE OF  
THE INSPECTOR GENERAL**

---

**SOCIAL SECURITY ADMINISTRATION**

---

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

**April 2012**

**A-07-11-11184**

---

**AUDIT REPORT**

---



## Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, Congress and the public.

## Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.
- Promote economy, effectiveness, and efficiency within the agency.
- Prevent and detect fraud, waste, and abuse in agency programs and operations.
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.
- Access to all information necessary for the reviews.
- Authority to publish findings and recommendations based on the reviews.

## Vision

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.



# SOCIAL SECURITY

## MEMORANDUM

Date: April 3, 2012

Refer To:

To: Carolyn L. Simmons  
Regional Commissioner  
Kansas City

From: Inspector General

Subject: Administrative Costs Claimed by the Iowa Disability Determination Services  
(A-07-11-11184)

## OBJECTIVE

Our objectives were to evaluate the Iowa Disability Determination Services' (IA-DDS) internal controls over the accounting and reporting of administrative costs, determine whether costs IA-DDS claimed were allowable and properly allocated and funds were properly drawn, and assess limited areas of the general security controls environment. Our audit included the administrative costs claimed by IA-DDS during Federal Fiscal Years (FY) 2009 and 2010.

## 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 payments 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 disability claims under the DI and SSI programs. Disability determination services (DDS) in each State or other responsible jurisdiction perform determinations under both DI and SSI. Such determinations must be performed in accordance with Federal law and underlying 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. To assist in making proper disability

---

<sup>1</sup> Act §§ 221 and 1614, 42 U.S.C. §§ 421 and 1382c. See also 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

determinations, each DDS is authorized to purchase medical examinations, x rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable reported expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payment (ASAP) system to pay for program expenditures. Funds drawn down must comply with Federal regulations<sup>2</sup> and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.<sup>3</sup>

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 quarter of the FY, each DDS is required to submit a *State Agency Report of Obligations for SSA Disability Programs (SSA-4513)* to account for program disbursements and unliquidated obligations.<sup>4</sup> The SSA-4513 reports expenditures and unliquidated obligations for Personnel, Medical, Indirect, and All Other Non-personnel costs.<sup>5</sup>

The Iowa Vocational Rehabilitation Services (IVRS) is IA-DDS' parent agency. IVRS is a component in the Iowa Department of Education. IA-DDS is located in Des Moines, Iowa.

## RESULTS OF REVIEW

In general, IA-DDS' internal controls over the accounting and reporting of administrative costs were adequate to ensure costs claimed were allowable and properly allocated and funds were properly drawn. However, we found that SSA was charged unallowable indirect costs totaling \$85,556 because of an error in the indirect cost rate calculation. We also found IA-DDS disclosed disability claimants' personally identifiable information (PII) on forms where it was not necessary. Regarding general security controls, we found IA-DDS did not have water leakage alarms in its computer server room.

---

<sup>2</sup> 31 C.F.R. § 205.1 *et seq.*

<sup>3</sup> Pub. L. No. 101-453, 104 Stat. 1058, in part amending 31 U.S.C. §§ 3335, 6501, and 6503

<sup>4</sup> SSA, Program Operations Manual System (POMS), DI 39506.201 and 202. POMS, DI 39506.200 B.4 provides, in part, that "Unliquidated obligations represent obligations for which payment has not been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received."

<sup>5</sup> SSA, POMS, DI 39506.201 and 202.

## Indirect Costs

SSA was charged unallowable indirect costs totaling \$85,556. This occurred because the State FY 2010 indirect cost rate, approved by the United States Department of Education (ED) and used by IVRS to charge indirect costs to SSA, was incorrectly calculated.<sup>6</sup>

The State FY 2010 indirect cost rate IVRS used to charge indirect costs to SSA and other Federal and State agencies was incorrect because it improperly excluded an adjustment that was required to correct previous unallowable indirect costs. Specifically, during State FYs 2002 through 2006, the indirect cost rates used to charge indirect costs to SSA and other Federal and State agencies included unallowable costs totaling \$351,164. The \$351,164 in unallowable costs resulted from IVRS claiming incentive payments under Iowa's Early-Out Retirement Plan without ED's approval. Therefore, ED retroactively determined the costs were unallowable and should not have been included in the indirect cost rate calculations for State FYs 2002 through 2006.

ED and IVRS previously agreed to correct the unallowable indirect costs charged to SSA and other Federal and State agencies by reducing the indirect costs used to calculate the State FY 2008 and 2010 indirect cost rates by \$175,582, respectively (totaling the \$351,164).

We found that the indirect costs ED used to calculate the indirect cost rate for State FY 2008 were properly reduced by \$175,582. However, when calculating the State FY 2010 indirect cost rate, ED did not reduce the indirect costs by the \$175,582. Accordingly, SSA was charged unallowable indirect costs totaling \$85,556.<sup>7</sup>

Since the indirect cost rate agreement affects other Federal agencies, it is not practical for IVRS to repay the unallowable indirect costs to SSA when other Federal agencies will have their repayment captured through the indirect cost adjustment. So, to properly exclude the unallowable indirect costs for all Federal agencies affected, ED plans to reduce the indirect costs used in the rate calculation for State FY 2014 to account for

---

<sup>6</sup> Each State FY, ED negotiates and approves the indirect cost rate used by IVRS to charge indirect costs to Federal agencies including SSA. IVRS computes the indirect costs charged to SSA each State FY by applying the ED approved indirect cost rate to an approved cost base.

<sup>7</sup> The State FY begins on July 1 and ends on June 30. Therefore, State FY 2010 encompassed portions of Federal FY 2009 (July 1 through September 30, 2009) and Federal FY 2010 (October 1, 2009 through July 30, 2010). Therefore, the \$85,556 in unallowable indirect costs to SSA included \$20,468 in unallowable charges to SSA in Federal FY 2009 and \$65,088 in unallowable charges to SSA in Federal FY 2010.

the remaining \$175,582 in unallowable indirect costs. In doing so, the indirect costs charged to SSA in Federal FYs 2013 and 2014 will be reduced by approximately \$85,556.<sup>8</sup>

We recommend the Regional Commissioner ensure the \$175,582 adjustment for unallowable costs is included in the State FY 2014 indirect cost rate approved by ED.

### **Personally Identifiable Information**

IA-DDS unnecessarily included disability claimants' PII on correspondence with third parties. IA-DDS processes over 34,000 disability determinations each FY. During the disability determination process, IA-DDS mails interpretation service forms and claimant travel invoices. We found that these documents contained PII including name; address; date of birth; telephone number; and, most notably, Social Security number (SSN).

Although we have no reason to believe this information was misused, this practice could result in abuse of claimants' PII. Federal guidance dictates that agencies should reduce their holdings of all PII to the minimum necessary to properly perform a documented agency function.<sup>9</sup> Agencies must also review their use of SSNs in agency systems and programs to identify instances in which collection or use of the SSN is superfluous.<sup>10</sup> On October 5, 2007, SSA's Office of Disability Determinations informed regional offices that DDSs should review their processes to eliminate the use of the SSNs on correspondence, where possible.

Given the prevalence of identity theft, we see no reason for PII to be included on such documents as interpretation service forms and travel invoices. We recommend the SSA Regional Commissioner remind the IA-DDS to limit the disclosure of PII in third-party correspondence, where possible.

---

<sup>8</sup> We report an approximate reduction in indirect costs of \$85,556. The actual reduction in indirect costs could be more or less depending on SSA's indirect cost base amount used to compute the actual indirect costs for FYs 2013 and 2014. SSA will know by July 2013 if the approved rate includes the adjustment. However, SSA will not know the total amount of the reduction in indirect costs until after the end of State FY 2014 because SSA's indirect cost base will not be known until July 2014. SSA's indirect cost base consists of the IA-DDS' costs claimed on the SSA-4513 less equipment purchases and medical costs so, the base can fluctuate each FY with changes in costs. However, we have no reason to believe that IA-DDS' costs will materially fluctuate by July 2014.

<sup>9</sup> OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*, Attachment 1 § B.1.a (page 2) indicates a few simple and cost-effective steps to reduce risks related to a data breach of PII, such as limiting access to only those individuals who must have such access. Access is defined as the ability or opportunity to gain knowledge of PII.

<sup>10</sup> OMB Memorandum M-07-16, *Safeguarding Against and Responding to the Breach of Personally Identifiable Information*, Attachment 1 § B.2.a.

### **Water Leakage Alarms in Computer Server Room**

IA-DDS' computer server room did not have the water leakage alarms required by SSA's instructions. The lack of water leakage alarms could result in damage to IA-DDS' computer server equipment. We recommend the Regional Commissioner instruct IA-DDS to install water leakage alarms in the computer server room to meet SSA's requirement.

### **CONCLUSION AND RECOMMENDATIONS**

In general, IA-DDS' internal controls over the accounting and reporting of administrative costs were adequate to ensure costs claimed were allowable and properly allocated and funds were properly drawn. However, we found that SSA was charged unallowable indirect costs totaling \$85,556 because of an error in the indirect cost rate calculation. We also found IA-DDS disclosed disability claimants' PII on forms where it was not necessary. Regarding general security controls, we found IA-DDS did not have water leakage alarms in the computer server room. Accordingly, we recommend the SSA Regional Commissioner:

1. Ensure the \$175,582 adjustment for unallowable costs is included in the State FY 2014 indirect cost rate approved by ED.
2. Remind the IA-DDS to limit the disclosure of PII in third-party correspondence, where possible.
3. Instruct IA-DDS to install water leakage alarms in the computer server room to meet SSA's requirement.

### **AGENCY COMMENTS**

SSA and IVRS agreed with our recommendations. See Appendices C and D.



Patrick P. O'Carroll, Jr.

# *Appendices*

---

APPENDIX A – Acronyms

APPENDIX B – Scope and Methodology

APPENDIX C – Agency Comments

APPENDIX D – Iowa Vocational Rehabilitation Services Comments

APPENDIX E – OIG Contacts and Staff Acknowledgments

### Acronyms

Act	<i>Social Security Act</i>
ASAP	Automated Standard Application for Payment
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
ED	United States Department of Education
FY	Fiscal Year
IA-DDS	Iowa Disability Determination Services
IVRS	Iowa Vocational Rehabilitation Services
OIG	Office of the Inspector General
OMB	Office of Management and Budget
PII	Personally Identifiable Information
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
SSI	Supplemental Security Income
SSN	Social Security Number
Treasury	Department of the Treasury
U.S.C.	United States Code

# Scope and Methodology

## SCOPE

To achieve our objective, 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 Iowa Disability Determination Services (IA-DDS) and the drawdown of SSA program appropriations.
- Interviewed staff at the Iowa Vocational Rehabilitation Services (IVRS) and IA-DDS.
- Reviewed State policies and procedures related to Personnel, Medical, Indirect, and All Other Non-personnel costs.
- Evaluated, tested, and documented internal controls regarding accounting, financial reporting, and cash management activities.
- Reconciled State accounting records to the administrative costs reported by IA-DDS on the *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for Federal Fiscal Years (FY) 2009 and 2010.
- Examined specific administrative expenditures (Personnel, Medical, and All Other Non-personnel costs) incurred and claimed by IA-DDS for FYs 2009 and 2010 on the Form SSA-4513. We used statistical sampling to select expenditures to test for support of the Medical and All Other Non-personnel costs, as discussed in the Methodology section.
- Determined whether IA-DDS was meeting SSA's DDS Office Space Allocation standards.
- Examined the indirect costs claimed by IA-DDS for FYs 2009 and 2010.
- Reviewed the State FY 2010 indirect cost rate proposal to ensure compliance and fairness in the formulation of the indirect cost rate.
- Compared the amount of SSA funds drawn to support program operations to the expenditures reported on the Form SSA-4513.
- Determined whether selected funds from canceled warrants were properly returned to SSA.

- Determined whether unliquidated obligations were properly supported.
- Reviewed IA-DDS' general security controls.
- Reviewed IA-DDS' adherence to Office of Management and Budget guidance related to safeguarding personally identifiable information.

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

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 conducted fieldwork from May through November 2011.

## **METHODOLOGY**

### **SAMPLING METHODOLOGY**

The sampling methodology encompassed the four general areas of costs reported on the SSA-4513: (1) Personnel, (2) Medical, (3) Indirect, and (4) All Other Non-personnel costs. We obtained a data extract of all costs and the associated invoices for FYs 2009 and 2010 for use in statistical sampling. We obtained this from the accounting systems used in preparing the Form SSA-4513.

#### ***Personnel Costs***

We reconciled IA-DDS' personnel costs to the Form SSA-4513. We then randomly selected 1 pay period, with a pay period end date of July 8, 2010, for further review. We then selected a random sample of 50 regular employees and all 34 medical consultants for additional review and testing of their payroll records for the pay period ended July 8, 2010.

#### ***Medical Costs***

We sampled 100 items (50 items each from of FYs 2009 and 2010) using a stratified random sample of medical costs based on the proportion of medical evidence of record and consultative examination costs to the total medical costs claimed.

### ***Indirect Costs***

IA-DDS indirect costs were computed by applying a federally approved rate to a cost base.<sup>1</sup> This methodology was approved by the United States Department of Education, which is the Federal agency designated to negotiate and approve the indirect cost rate. On the Forms SSA-4513, IA-DDS claimed indirect costs of \$1,456,835 for FY 2009 and has \$1,652,871 in indirect costs obligated for FY 2010. We reviewed IVRS' State FY 2010 indirect cost proposal to ensure it was fair and equitable. We compared the indirect cost proposal to the associated rate for State FY 2010. We reviewed the FY 2009 and 2010 indirect cost calculations to ensure the correct rate was applied.

### ***All Other Non-personnel Costs***

We sampled 105 items (53 expenditures from FY 2009 and 52 from FY 2010) using a stratified random sample. The random sample was based on the proportion of costs in each of the cost categories to the total costs claimed.

---

<sup>1</sup> For FY 2010, the indirect cost calculation was Personnel costs plus All Other Non-personnel cost minus Equipment Purchases times the indirect cost rate plus direct charges for DDS staff that retired under the State Employee Retirement Incentive Program.

## Agency Comments

March 08, 2012  
Signed Draft Report (A-07-11-11184) - Kansas City Response

To: Inspector General

From: Regional Commissioner  
Kansas City

Subject: Administrative Costs Claimed by the Iowa Disability Determination Services  
(A-07-11-11184) - Response

We appreciate the opportunity to present the regional views concerning the facts and reasonableness of the recommendations.

1. Ensure the \$175,582 adjustment for unallowable costs is included in the State FY 2014 indirect cost rate approved by ED.

We agree with the finding and the Region will ensure the adjustment is made in the State FY 2014 indirect cost rate agreement. We believe, however, that there is a misstatement in Footnote #8 under this finding. The statement should be revised to reflect SSA will know by July 2013 if the approved rate includes the adjustment, but that SSA will not know the total amount of the reduction in indirect costs until after the end of State FY 2014 (June 2014).

2. Remind the IA-DDS to limit the disclosure of PII in third-party correspondence, where possible.

We agree with the finding and the Region will work with the DDS to ensure appropriate actions are taken to limit disclosure of PII on DDS correspondence.

3. Instruct IA-DDS to install water leakage alarms in the computer server room to meet SSA's requirement.

We agree with the finding and the Region is working with the DDS to identify devices to meet this need and with Office of Disability Determinations to request funding.

If you have questions, please contact me at 816-936-5700. Staff with questions may contact Janet Shivers, Director, Center for Disability Programs, at 816-936-5742.

/s/  
Carolyn L. Simmons

## Iowa Vocational Rehabilitation Services Comments

March 13, 2012  
Signed Draft Report (A-07-11-11184)

Dear Mr. Bailey,

Iowa Vocational Rehabilitation Services has no additional comments to make in reference to the draft report, Administrative Costs Claimed by the Iowa Disability Determination Services (A-07-11-11184). We accept the recommendations.

Thank you.

David Mitchell, MS, CRC  
IVRS Administrator

Notice to Recipient: This electronic mail transmission, including attachments, may contain information from Iowa Vocational Rehabilitation Services (IVRS) that is privileged, confidential, or proprietary and may be subject to protection under the law, including the Health Insurance Portability & Accountability Act (HIPAA). This information is solely for the intended recipient(s). If you are not the intended recipient, you are notified that any review, use, dissemination, distribution, copying, or storing of the e-mail or its contents is strictly prohibited. If you have received this e-mail in error, please contact the sender immediately by replying to the e-mail and delete this message from your computer and system. Thank you for your cooperation.

## OIG Contacts and Staff Acknowledgments

### ***OIG Contacts***

Mark Bailey, Director, Kansas City Audit Division

Kenneth Bennett, IT Specialist, Kansas City Audit Division

### ***Acknowledgments***

In addition to those named above:

Nicholas Moore, Auditor-in-Charge

For additional copies of this report, please visit our Website at <http://oig.ssa.gov/> or contact the Office of the Inspector General's Public Affairs Staff at (410) 965-4518. Refer to Common Identification Number A-07-11-11184.

## ***DISTRIBUTION SCHEDULE***

Commissioner of Social Security

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, Committee on the Budget, House of Representatives

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

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 Pensions 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 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.

### **Office of Audit**

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.

### **Office of Investigations**

OI conducts investigations 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 liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

### **Office of the Counsel to the Inspector General**

OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

### **Office of External Relations**

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

### **Office of Technology and Resource Management**

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.