



Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

Audit Report

Personnel and Indirect Costs Claimed
by the Michigan Disability
Determination Services for
Fiscal Year 2014

A-07-19-50763 | January 2020



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: January 22, 2020

Refer To:

To: Phyllis Smith
Regional Commissioner
Chicago Region

From: Assistant Inspector General for Audit

Subject: Personnel and Indirect Costs Claimed by the Michigan Disability Determination Services for Fiscal Year 2014 (A-07-19-50763)

The attached final report presents the results of our review. Our objective was to determine whether the Fiscal Year 2014 personnel and indirect costs the Michigan Disability Determination Services claimed for reimbursement from the Social Security Administration were allowable.

If you wish to discuss the final report, please call me or have your staff contact Mark Bailey, Director, Kansas City Audit Division, at (877) 405-7694 ext. 18800.

Rona Lawson

Attachment

cc:

Trae Sommer, Acting Director for Audit Liaison Staff

Ann Robert, Assistant Regional Commissioner, Chicago Region

Charles Jones, Director, Michigan Disability Determination Services

Robert Gordon, Director, Michigan Department of Health and Human Services

Personnel and Indirect Costs Claimed by the Michigan Disability Determination Services for Fiscal Year 2014

A-07-19-50763



January 2020

Office of Audit Report Summary

Objective

To determine whether the Fiscal Year (FY) 2014 personnel and indirect costs the Michigan Disability Determination Services (MI-DDS) claimed for reimbursement from the Social Security Administration (SSA) were allowable.

Background

Disability determination services (DDS) in the 50 States, the District of Columbia, and Puerto Rico perform disability determinations for SSA. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.

SSA reimburses DDSs for 100 percent of allowable expenditures up to the approved funding authorization for costs reported on the *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513). The SSA-4513 cost categories include personnel, medical, other non-personnel, and indirect.

SSA's Chicago Regional Office requested that we audit MI-DDS' FY 2014 personnel and indirect costs. We audited the \$60.9 million in personnel costs and \$4.6 million in indirect costs reported to SSA for reimbursement by MI-DDS on the FY 2014 SSA-4513 dated May 2019.

Findings

The MI-DDS costs reported to SSA for reimbursement on the FY 2014 SSA-4513, dated May 2019, were overstated by approximately \$3.6 million. Specifically,

- personnel costs were overstated by \$3,302,029 because they included the salary and benefit costs of MI-DDS employees who did not perform SSA work or did not perform SSA work exclusively, and
- indirect costs were overstated by \$255,490 because they included costs that were not in accordance with the terms of the federally approved cost allocation plan.

Agency Actions Resulting from the Audit

In August 2019, we informed SSA's Chicago Regional Office that the personnel and indirect costs were overstated by approximately \$3.6 million. The Regional Office then worked with the State to resolve the overstated costs. In September 2019, MI-DDS submitted a revised SSA-4513 to SSA that reduced the personnel and indirect costs reported for reimbursement by the overstated amounts identified in our audit. Since SSA had not reimbursed the State for the overstated costs we identified, a recommendation is not warranted.

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ABBREVIATIONS

C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
MI-DDS	Michigan Disability Determination Services
MI-DHHS	Michigan Department of Health and Human Services
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
SSI	Supplemental Security Income
U.S.C.	United States Code

OBJECTIVE

Our objective was to determine whether the Fiscal Year (FY) 2014 personnel and indirect costs the Michigan Disability Determination Services (MI-DDS) claimed for reimbursement from the Social Security Administration (SSA) were allowable.

BACKGROUND

Disability determination services (DDS) in the 50 States, the District of Columbia, and Puerto Rico perform disability determinations under SSA's Disability Insurance (DI)¹ and Supplemental Security Income (SSI)² programs in accordance with Federal regulations.³ Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. Within the State hierarchy, most DDSs report to a parent agency.⁴ The parent agency makes management decisions for the DDS including organizational structure, facilities, and personnel.

SSA reimburses DDSs for 100 percent of allowable expenditures up to the approved funding authorization⁵ for costs reported on the *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513).⁶ The SSA-4513 cost categories include personnel, medical, other non-personnel, and indirect. The personnel, medical, and other non-personnel cost categories are considered direct costs since they can be identified to specific DDS activities, such as DDS employee salaries.⁷ The indirect cost category includes expenditures from State activities that benefit multiple programs but are not directly assignable to any one program.⁸ For example, the salaries of the State agency employees who process payroll actions for multiple departments within the agency, including the DDS.

¹ The DI program provides benefits to wage earners and their families who meet certain criteria if the wage earner becomes disabled or dies. See 20 C.F.R. §§ 404.315, 404.330, and 404.350 (govinfo.gov 2019).

² The SSI program provides a minimum level of income for people who are age 65 or older or who are blind or disabled and who do not have sufficient income and resources to maintain a standard of living at the established Federal minimum income level. See 20 C.F.R. § 416.110 (govinfo.gov 2019).

³ 20 C.F.R., part 404, subpart Q, and part 416, subpart J (govinfo.gov 2019). The Puerto Rico DDS only performs disability determinations under the DI program.

⁴ The Arkansas DDS does not have a parent agency. Rather, the DDS reports directly to the Governor.

⁵ Each quarter, SSA provides funds to States for the Federal FY (October 1 to September 30). Notification to the States of the cumulative amount of funds that may be obligated for approved necessary expenses and the dates covered by the funding is included in the *State Agency Obligational Authorization for SSA Disability Programs* (SSA-872). SSA, *POMS*, DI 39506.100, A (March 12, 2002).

⁶ SSA, *POMS*, DI 39501.020, B.1 (February 28, 2002). SSA, *POMS*, DI 39506.001, B.1 (March 12, 2002). SSA, *POMS*, DI 39506.202, A (February 20, 2015).

⁷ 2 C.F.R. part 225, app. A, E.2.a (govinfo.gov 2013).

⁸ 2 C.F.R. part 225, app. A, F.1 (govinfo.gov 2013).

The Michigan Department of Health and Human Services (MI-DHHS) is the MI-DDS' parent agency. In addition to making management decisions for the MI-DDS, the parent agency helps complete the SSA-4513 submitted to SSA for reimbursement of the direct and indirect costs incurred for determining claimants' disabilities. The indirect costs submitted to SSA for reimbursement are based on MI-DHHS' cost allocation plan. The plan describes the procedures MI-DHHS will use to identify and allocate costs to all programs it administers or supervises, including SSA's disability programs. In accordance with Federal regulations, MI-DHHS' cost allocation plan required Federal Department of Health and Human Services' approval.⁹

SSA's Chicago Regional Office provides liaison with and oversight of the MI-DDS, including monitoring DDS expenditures and performance. The Regional Office requested that we conduct this audit because it had concerns about the accuracy of MI-DDS' April 2017 request for reimbursement for FY 2014 personnel and indirect costs.¹⁰ Specifically, MI-DDS submitted a revised SSA-4513 requesting additional reimbursement from SSA. Although the Regional Office attempted to obtain documentation from the State to support these additional costs, it was not provided. Accordingly, the Regional Office did not reimburse the State for these additional costs. Instead, it requested we conduct this audit.

After the start of our audit, MI-DDS submitted another revised SSA-4513 for FY 2014, dated May 2019, requesting reimbursement from SSA for costs that exceeded the prior request. On the May 2019 SSA-4513, MI-DDS reported personnel costs of \$60,897,710 and indirect costs of \$4,646,253. We audited these reported costs. See Appendix A for our scope and methodology.

RESULTS OF REVIEW

The MI-DDS costs reported to SSA for reimbursement on the FY 2014 SSA-4513, dated May 2019, were overstated by approximately \$3.6 million. Specifically,

- personnel costs were overstated by \$3,302,029 because they included the salary and benefit costs of MI-DDS employees who did not perform SSA work or did not perform SSA work exclusively, and
- indirect costs were overstated by \$255,490 because they included costs that were not in accordance with the terms of the federally approved cost allocation plan.

⁹ 45 C.F.R. §§ 95.503, 505 (govinfo.gov 2018).

¹⁰ DDSs have 5 years from the close of the FY to adjust costs claimed for reimbursement from SSA. 31 U.S.C. § 1552 (govinfo.gov 2017).

Personnel Costs

MI-DDS' personnel costs were overstated by \$3,302,029. The costs were overstated because MI-DHHS included 100-percent of the salary and benefit costs of MI-DDS employees who either did not perform SSA work or did not perform SSA work exclusively. SSA policy states personnel costs should only reflect the wages and salaries paid to DDS personnel for the time devoted to SSA disability programs.¹¹

According to MI-DHHS, the employees who previously completed the SSA-4513 left its employment in FY 2018. When these employees left, MI-DHHS reconciled the FY 2014 SSA-4513 costs previously reported to SSA for reimbursement to the State's accounting records. According to MI-DHHS, the employees who completed the reconciliation were not aware the aforementioned MI-DDS employees did not perform SSA work or did not perform it exclusively in FY 2014. Accordingly, the employees revised the May 2019 SSA-4513 and incorrectly charged the entire salaries and benefits of these employees to SSA for reimbursement.¹²

Indirect Costs

MI-DDS' indirect costs reported to SSA for reimbursement were overstated by \$255,490. The costs were overstated because MI-DHHS included costs that were not in accordance with the terms of the federally approved cost allocation plan. According to Federal regulations, State agencies can only claim costs in accordance with the terms outlined in the federally approved cost allocation plan.¹³ Therefore, costs not claimed in accordance with the approved plan are unallowable for Federal reimbursement.¹⁴ According to MI-DHHS, the employee who calculated indirect costs for FY 2014 is no longer in its employment; therefore, it could not provide us an explanation for the overstated indirect costs. The overstated costs consisted of the indirect costs categories not allowed by the terms of the federally approved cost allocation plan as shown in Table 1.

¹¹ SSA, *POMS*, DI 39506.210, D.1 (March 12, 2002).

¹² In FY 2019, an MI-DDS employee was trained in the procedures for calculating personnel costs reported to SSA on the SSA-4513.

¹³ 45 C.F.R. § 95.517 (govinfo.gov 2018).

¹⁴ 45 C.F.R. § 95.519 (govinfo.gov 2018).

Table 1: FY 2014 Unallowable Indirect Cost Category Amounts

Indirect Cost Category	Unallowable Cost
Print Center	\$72,764
Develop Analysts	\$63,353
Central Office Administration ¹⁵	\$119,373
Total	\$255,490

CONCLUSIONS

The MI-DDS costs reported to SSA for reimbursement on the FY 2014 SSA-4513, dated May 2019, were overstated by approximately \$3.6 million. Specifically, personnel costs were overstated by approximately \$3.3 million because they included the salary and benefit costs of MI-DDS employees who did not perform SSA work or did not perform it exclusively in FY 2014. Further, indirect costs reported to SSA were overstated by approximately \$255,000 because they included costs that were not in accordance with the terms of the federally approved cost allocation plan.

AGENCY ACTIONS RESULTING FROM THE AUDIT

In August 2019, we informed officials in SSA's Chicago Regional Office that the personnel and indirect costs were overstated by approximately \$3.6 million. The regional office then worked with the State to resolve the overstated costs. In September 2019, MI-DDS submitted a revised SSA-4513 to SSA that reduced the personnel and indirect costs reported for reimbursement by the overstated amounts identified in our audit. Since SSA had not reimbursed the State for the overstated costs we identified, a recommendation is not warranted.

AGENCY COMMENTS

See Appendix B for the full text of SSA's comments.



Rona Lawson
Assistant Inspector General for Audit

¹⁵ This indirect cost pool comprised 19 cost center codes with monetary costs. Of the 19 cost center codes, 4—8002, 8059, 8106, and 8241—were not included in the federally approved cost allocation plan. Further, MI-DHHS charged other indirect costs to SSA that it could neither associate with a cost center code in the approved cost allocation plan nor identify the source of the costs.

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We determined whether the Fiscal Year (FY) 2014 personnel and indirect costs the Michigan Disability Determination Services (MI-DDS) claimed for reimbursement from the Social Security Administration (SSA) on the *State Agency Report of Obligations for SSA Disability Programs* (SSA-4513), dated May 2019, were allowable.

To accomplish our objective, we:

- Reviewed applicable Federal laws and regulations, the SSA Program Operations Manual System, and other criteria relevant to personnel and indirect costs claimed by MI-DDS.
- Reviewed prior audit reports and the Michigan Single Audit Report findings for FY 2014 related to SSA.
- Reviewed the Michigan Department of Health and Human Services (MI-DHHS) cost allocation plan, policies, and procedures related to indirect costs claimed for reimbursement from SSA.
- Interviewed employees from MI-DDS, MI-DHHS, and SSA's Chicago Regional Office.
- Verified the reconciliation of State accounting records to the personnel costs and indirect costs MI-DDS reported on the FY 2014 SSA-4513 dated May 2019.

We conducted audit work in Kansas City, Missouri, and Lansing, Michigan, between November 2018 and September 2019. We determined the data used for this audit were sufficiently reliable to meet our objectives. The entities audited were SSA's Chicago Regional Office and MI-DDS. 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.

Appendix B – AGENCY COMMENTS



SOCIAL SECURITY
Office of the Regional Commissioner

MEMORANDUM

Date: January 6, 2020 **Refer To:** S2G5D2
To: Assistant Inspector General for Audit
From: Regional Commissioner
Chicago
Subject: Personnel and Indirect Costs Claimed by the Michigan Disability Determination Services for Fiscal Year 2014 (A-07-19-50763) -- (Your E-Mail Request dated December 17, 2019) —REPLY

We appreciate the opportunity to comment on the subject draft report, and want to thank the Kansas City-based OIG Audit Team for their collaborative efforts and expertise.

We believe the results and conclusions noted in the draft report accurately reflect the actions of the OIG Auditors, and the participation of the Michigan DHHS, the Michigan DDS, and the Chicago RO. We have no additional comments.

Questions about this memorandum may be directed to Joanne Kravaritis, Program Director, Center for Disability, Integrity and Program Support at 312-575-5705.

/s/
Phyllis M. Smith
Regional Commissioner

cc: Mark Bailey, Director, Kansas City Audit Division

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