



Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

Audit Report

Indirect Costs Claimed by the Oregon
Disability Determination Services

A-09-14-24140 | June 2015



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: June 2, 2015

Refer To:

To: Stanley Friendship
Regional Commissioner
Seattle

From: Inspector General

Subject: Indirect Costs Claimed by the Oregon Disability Determination Services (A-09-14-24140)

The attached final report presents the results of our audit. Our objective was to determine whether the indirect costs claimed by the Oregon Disability Determination Services for Fiscal Years 2011 through 2013 were allowable.

If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

Patrick P. O'Carroll, Jr.

Attachment

cc:

Ann Robert, Acting Associate Commissioner for Disability Determinations
Carla Krabbe, Associate Commissioner for Financial Policy and Operations
Gary S. Hatcher, Senior Advisor for Records Management and Audit Liaison Staff
Erinn Kelly-Siel, Director, Department of Human Services
Mary Gabriel, DDS Administrator, Oregon Department of Human Services
Donald Erickson, Chief Operating Officer, Aging and People with Disabilities and Developmental Disabilities

Indirect Costs Claimed by the Oregon Disability Determination Services

A-09-14-24140



June 2015

Office of Audit Report Summary

Objective

To determine whether the indirect costs claimed by the Oregon Disability Determination Services (OR-DDS) for Fiscal Years (FY) 2011 through 2013 were allowable.

Background

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability 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 each DDS for 100 percent of allowable expenditures. The expenditures include both direct and indirect costs.

For FYs 2011 through 2013, SSA reimbursed the Oregon Department of Human Services (OR-DHS) \$81.1 million in administrative expenses, including \$6.1 million in indirect costs.

Findings

OR-DHS improperly charged indirect costs to SSA's programs. As a result, SSA reimbursed OR-DHS \$1,300,328 in unallowable costs for FYs 2011 through 2013. Specifically, we found OR-DHS improperly charged SSA

- \$263,835 in indirect costs from the Office of Information Services,
- \$8,972 in indirect costs from the Office of Payment Accuracy and Recovery, and
- \$1,027,521 in State-wide and departmental indirect costs because it used an incorrect cost allocation rate.

Recommendations

We made several recommendations for OR-DHS to refund unallowable indirect costs, exclude OR-DDS from cost pools that do not provide it a benefit, and include all divisional components personnel services costs to determine the cost allocation rate for distributing State-wide and departmental indirect costs.

SSA agreed with our recommendations, and OR-DHS generally agreed with our recommendations.

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ABBREVIATIONS

C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
FY	Fiscal Year
OIG	Office of the Inspector General
OIS	Office of Information Services
OMB	Office of Management and Budget
OPAR	Office of Payment Accuracy and Recovery
OR-DDS	Oregon Disability Determination Services
OR-DHS	Oregon Department of Human Services
POMS	Program Operations Manual System
SSA	Social Security Administration

OBJECTIVE

Our objective was to determine whether the indirect costs claimed by the Oregon Disability Determination Services (OR-DDS) for Fiscal Years (FY) 2011 through 2013 were allowable.

BACKGROUND

State disability determination services (DDS) perform disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs in accordance with Federal law and regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.¹ To assist in making proper disability 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.²

SSA reimburses each DDS for 100 percent of allowable expenditures up to its approved funding authorization.³ Allowable expenditures include both direct and indirect costs.⁴ At the end of each quarter, each DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and unliquidated obligations. OR-DDS is a component of the Oregon Department of Human Services (OR-DHS).

The Seattle Regional Office requested that we conduct an audit because of its concerns about significant increases in indirect costs for the OR-DDS. For FYs 2011 through 2013, SSA reimbursed OR-DHS \$81.1 million in administrative expenses, which included \$6.1 million in indirect costs.

RESULTS OF REVIEW

OR-DHS improperly charged indirect costs to SSA's programs. As a result, SSA reimbursed OR-DHS \$1,300,328 in unallowable costs for FYs 2011 through 2013. This consisted of

- \$263,835 in indirect costs from the Office of Information Services (OIS),
- \$8,972 in indirect costs from the Office of Payment Accuracy and Recovery (OPAR), and

¹ The *Social Security Act*, as amended, §§ 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.*

² SSA, Program Operations Manual System (POMS), DI 39545.120A. (April 20, 2007)

³ 20 C.F.R. §§ 404.1626 and 416.1026.

⁴ Direct costs can be identified specifically with a particular cost objective (Office of Management and Budget [OMB] Circular A-87, Attachment A, §E.1). Indirect costs arise from activities that benefit multiple programs but are not readily assignable to these programs without effort disproportionate to the results achieved (OMB Circular A-87, Attachment A, §F.1).

- \$1,027,521 in State-wide and departmental indirect costs because it used an incorrect cost allocation rate.

This occurred because OR-DHS charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool and used an incorrect cost allocation rate to distribute State-wide and departmental indirect costs.

Indirect Costs That Did Not Benefit SSA Programs

Federal cost standards state that expenditures may be allocated to a particular program if the goods or services are charged in accordance with the relative benefits received.⁵ These standards also require that indirect cost pools be distributed to benefiting programs on a basis that will produce an equitable result in consideration of relative benefits derived.⁶

Our review found that OR-DHS improperly charged indirect costs to SSA programs. This occurred because OR-DHS improperly charged SSA indirect costs for OIS and OPAR.

OIS

OR-DHS improperly charged SSA for indirect costs from OIS. OIS provided application development and support, desktop support and strategic planning, and coordination of information systems for OR-DHS and most of its components. However, OIS did not support OR-DDS because it maintained its own dedicated team that provided system support for its operations. In addition, OR-DHS directly charged SSA the costs for this team and any OR-DDS hardware and software requirements.

In a prior audit,⁷ we found that OR-DHS improperly charged approximately \$3 million in OIS indirect costs to SSA programs. In response to our prior audit, OR-DHS stopped charging OIS costs to SSA and refunded the unallowable costs. However, in November 2011, because of an organizational change that placed OR-DDS under a component to which OIS provided support, OR-DHS started charging OIS costs to SSA. As a result, OR-DHS improperly charged \$263,835 in indirect costs. However, in July 2013, OR-DHS stopped charging OIS costs directly to OR-DDS because of an organizational change that made OR-DDS an independent component.

OPAR

OR-DHS improperly charged SSA for indirect costs from OPAR. OPAR ensured program integrity by improving payment accuracy and recovery for food stamps, Medicaid, and childcare programs. OPAR did not perform any work that benefitted OR-DDS.

⁵ OMB Circular A-87, Attachment A, § C.3.a.

⁶ OMB Circular A-87, Attachment A § F.1.

⁷ SSA, OIG, *Indirect Costs Claimed by the Oregon Disability Determination Services* (A-09-05-15001), June 2005.

In a prior audit,⁸ we found that OR-DHS improperly charged approximately \$44,000 in indirect costs from OPAR to SSA programs. In response to our prior audit, OR-DHS stopped charging OPAR costs to SSA and refunded the unallowable costs. However, in August 2012, because of an organizational change that placed OR-DDS under a component to which OPAR provided support, OR-DHS started charging OPAR costs to SSA. As a result, OR-DHS improperly charged \$8,972. However, in July 2013, OR-DHS had stopped charging OPAR costs directly to OR-DDS because of an organizational change that made OR-DDS an independent component.

Incorrect Allocation Rate for Indirect Costs

Federal cost standards state that expenditures may be allocated to a particular program if the goods or services are charged in accordance with the relative benefits received.⁹ These standards also state that indirect cost pools should be distributed to benefiting programs on a basis that will produce an equitable result in consideration of relative benefits derived.¹⁰

OR-DHS used an incorrect cost allocation base to distribute State-wide and departmental indirect costs for FYs 2012 and 2013. Beginning in November 2011, OR-DHS excluded personnel costs of the State Operated Community Program from the indirect cost allocation base. As a result, OR-DHS allocated \$1,027,521 in unallowable indirect costs to SSA's programs. This consisted of \$713,579 in State-wide indirect costs and \$313,942 in departmental indirect costs. Finally, OR-DHS continued excluding personnel costs of this office from the indirect cost allocation base in FYs 2014 and 2015.

The following illustrates how OR-DHS improperly allocated indirect costs. The monthly personnel service costs for the Seniors and People with Disabilities division was approximately \$10.7 million, of which OR-DDS costs were about \$1.2 million (11.2 percent). However, OR-DHS excluded about \$3.3 million of State Operated Community Programs personnel service costs from the \$10.7 million allocation base. As a result, OR-DHS used an allocation base of \$7.4 million, of which OR-DDS' share was 16.2 percent. OR-DHS applied the 16.2-percent share to State-wide indirect costs of approximately \$537,000 and the departmental indirect costs of \$177,000 and charged OR-DDS approximately \$87,000 and \$29,000 of indirect costs. Had OR-DHS properly used the 11.2-percent share of indirect costs, it would have only charged OR-DHS about \$60,000 of State-wide indirect costs and \$20,000 of department indirect costs.

⁸ SSA, OIG, *Indirect Costs Claimed by the Oregon Disability Determination Services* (A-09-05-15001), June 2005.

⁹ OMB Circular A-87, Attachment A, § C.3.a.

¹⁰ OMB Circular A-87, Attachment A § F.1.

CONCLUSIONS

OR-DHS improperly charged indirect costs to SSA's programs. This occurred because OR-DHS (1) charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool and (2) used an incorrect cost allocation rate to distribute State-wide and departmental indirect costs. As a result, SSA reimbursed OR-DHS for \$1,300,328 in unallowable costs for FYs 2011 through 2013.

RECOMMENDATIONS

We recommend that SSA instruct OR-DHS to:

1. Refund \$263,835 of unallowable OIS indirect costs for FYs 2011 through 2013.
2. Refund \$8,972 of unallowable OPAR indirect costs for FYs 2011 through 2013.
3. Exclude OR-DDS from cost pools that do not provide it a benefit in future periods.
4. Refund \$1,027,521 of unallowable State-wide and departmental indirect costs for FYs 2011 through 2013.
5. Identify and refund unallowable State-wide and departmental indirect costs for FYs 2014 and 2015.
6. Include all divisional component personnel services costs to determine the cost allocation rate to distribute State-wide and departmental indirect costs in future periods.

AGENCY COMMENTS

SSA agreed with our recommendations, and OR-DHS generally agreed with our recommendations. See Appendix B and Appendix C for the text of SSA's and OR-DHS' comments, respectively.

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We reviewed the indirect costs reported by the Oregon Department of Human Services (OR-DHS) and its component, the Oregon Disability Determination Services (OR-DDS), on its Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs* for Fiscal Years (FY) 2011 through 2013. For the items tested, we reviewed OR-DHS' and OR-DDS' compliance with applicable laws and regulations over the allowability of indirect costs.

To accomplish our objectives, we:

- Reviewed applicable Federal laws and regulations, pertinent sections of the Social Security Administration's (SSA) Program Operations Manual System, Office of Management and Budget Circular A-87, and OR-DHS' Cost Allocation Plan.
- Interviewed employees from SSA, the Department of Health and Human Services' Division of Cost Allocation, OR-DHS, and OR-DDS.
- Examined the indirect costs incurred and claimed by OR-DHS for OR-DDS for FYs 2011 through 2013.
- Reconciled the accounting records to the indirect costs reported by OR-DHS on its Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs* for FY 2011 through 2013.

We determined the computer-processed data were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data. These tests allowed us to assess the reliability of the data and achieve our audit objective.

We conducted audit work in Richmond, California, and Salem, Oregon, between June 2014 and January 2015. The entities audited were SSA's Seattle Regional Office and the OR-DDS.

We conducted our 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 that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B – AGENCY COMMENTS

Date: April 21, 2015

To: Inspector General
Office of the Inspector General

From: Regional Commissioner
Seattle Region

Subject: Indirect Costs Claimed by the Oregon Disability Determination Services (A-09-14-24140) – SEATTLE REPLY

Thank you for the opportunity to respond to the draft report of the Office of the Inspector General (OIG) audit of the Indirect Costs Claimed by the Oregon Disability Determination Services (A-09-14-24140). We appreciate OIG's assistance with this sensitive issue and for your willingness to complete this audit based on our request. The report clearly outlines the audit objective, background, scope, methodology, and each of the findings and associated recommendations. We concur with each of the six recommendations in the report.

If members of your staff have any questions that we can address, they may contact Laura White, Center for Disability and Program Support, via email at laura.f.white@ssa.gov or by phone at 206-615-2674.

Thank you,

Stanley C. Friendship

Appendix C – STATE COMMENTS

Department of Human Services

Office of the Director
500 Summer Street NE
Salem OR 97301
www.oregon.gov/dhs

May 15, 2015

Patrick P. O'Carroll, Jr.
Inspector General
Social Security Administration
6401 Security Boulevard
Baltimore, MD 21235-0001



RE: Draft Report Number A-09-14-24140

Dear Mr. O'Carroll:

Thank you for the opportunity to respond to the draft audit report entitled, *Indirect Costs Claimed by the Oregon Disability Determination Services (A-09-14-24140)*. Below we have addressed the specific findings and recommendations in the order they appear in the draft report.

We recommend that SSA instruct OR-DHS to refund \$263,835 of unallowable OIS indirect costs for FYs 2011 through 2013.

The Oregon Department of Human Services (OR-DHS) generally agrees with this recommendation. OR-DHS will refund \$264,121 in improperly assessed Office of Information Services (OIS) indirect costs for the last quarter of Federal Fiscal Year (FFY) 2013, which reflects the period from July 1, 2013 through September 30, 2013.

However, OR-DHS will continue to assess the appropriate and allowable pass-through costs associated with providing services from the applicable Central and Shared Services Offices ranging from approximately \$1,600 - \$1,900 per month to Disability Determination Services (DDS).

The SSA grant for DDS was completely excluded when assessing costs for the Agency's IT related services in conformity with the prior June 2005 OIG audit finding.

At that time, our cost allocation processes did not have the level of granularity necessary to determine the appropriate “pass-through” costs associated with support that DDS receives from the Agency’s Central/Administrative offices.

Pass-through costs are defined as those necessary for support of functions from which a federal participant does receive a direct benefit. Payroll, Human Resources, Budgetary, Accounting Support and the like require OIS support for the DHS systems and mainframe used. Thus, the OIS related costs of providing these services are “passed through” to areas being supported.

OR-DHS implemented a new cost allocation system effective July 1, 2011, which provided the granularity necessary to determine how much of these costs should be assessed to DDS.

The change made in OR-DHS that placed DDS under a different structural component (Aging and People with Disabilities (APD) Program Delivery) was effective July 1, 2013. Upon observation, DDS was moved from underneath that structure effective January 1, 2014, and internal costs associated with our APD Program Delivery and APD Program Design/Support sections were refunded in February 2014. Since the structure move that placed DDS in its own stand-alone structure, the average pass-through OIS charges decreased from a monthly average of \$86k per month in AY15 to an average of approximately \$1,650 per month. The average monthly pass-through OIS charges assessed to DDS for July 1, 2011 to June 30, 2013 averaged approximately \$1,900 per month.

We recommend that SSA instruct OR-DHS to refund \$8,972 of unallowable OPAR indirect costs for FYs 2011 through 2013.

While OR-DHS generally disagrees with this recommendation, we will refund \$8,972 in OPAR indirect costs for the period in question.

The methodology used to distribute Office of Payment Accuracy and Recovery (OPAR) costs was deemed the most fair and equitable with the information available at the time and was approved in our Public Assistance Cost Allocation Plan (PACAP). The PACAP includes a review by our Federal partners (including SSA) to provide feedback or ask any questions.

OPAR expenditures were allocated in FY 2011 through FY 2013 in accordance with the state’s federally-approved PACAP. OR-DHS maintains that the ability to procure more definitive metrics beginning in July 2013 should not supersede or invalidate previously used methodologies, thus rendering those charges improper or unallowable.

After submission of the State’s PACAP, OPAR was able to provide metrics associated with work effort and their methodology was updated in July 2013. With the metrics we are now able to obtain from OPAR, DDS is no longer being assessed charges for the operations of this office.

We recommend that SSA instruct OR-DHS to exclude OR-DDS from cost pools that do not provide it a benefit in future periods.

In order to exclude OR-DDS from pools that do not provide it a benefit, the OR-DHS will regularly review its cost pools through its internal governance structure (the Cost Allocation

Steering Committee) to ensure fair and equitable distribution of costs. To the best of the agency's ability, it will employ allocation methods that allocate costs in proportion to benefit received. OR-DDS has a voting participant on this committee. Additionally, the OR-DHS submits its intended costing methods to Division of Cost Allocation (DCA) for their review and approval.

We recommend that SSA instruct OR-DHS to refund \$1,027,521 of unallowable state-wide and departmental indirect costs for FYs 2011 through 2013.

OR-DHS agrees and will refund \$1,027,521 for FFY 2011 through 2013 for the additional amount assessed to DDS due to the exclusion of a portion of personnel costs from the State Operated Community Programs (SOCP).

This section of the audit pertains to the OR-DHS State Government Service Charge (SGSC) or the Statewide Cost Allocation Plan (SWCAP) charges allocated to OR-DHS from our Department of Administrative Services (DAS), as well as departmental or agency related indirect costs.

The portion of the SWCAP charges allocated to OR-DHS, and subsequently the portion allocated to Seniors and People with Disabilities (SPD) division, is based on the Legislatively Approved Budgeted number of full-time equivalent staff (FTE).

OR-DHS agrees that while a portion of personnel costs of the SOCP should be included for determination of the final funding source, the FTE generating those costs were included in the original calculation used to determine the proportion of the expenditure that belonged to the SPD division.

We recommend that SSA instruct OR-DHS to identify and refund unallowable state-wide and departmental indirect costs for FYs 2014 and 2015.

OR-DHS agrees and will refund \$225,244 for FY's 2014 and 2015 for the additional amount assessed to DDS due to the exclusion of a portion of personnel costs from the State Operated Community Programs.

We recommend that SSA instruct OR-DHS to include all divisional component personnel services costs to determine the cost allocation rate to distribute state-wide and departmental indirect costs in future periods.

OR-DHS agrees with this assessment and will include all appropriate divisional personnel costs in the distribution of our SWCAP charges in future periods.

Thank you for the opportunity to comment on the draft report. If you or your staff have any questions regarding these comments, please contact Travis Labrum, Cost Allocation / Interface Unit Manager, Office of Financial Services, Oregon Department of Human Services at (503) 602-4935.

Sincerely,

/Donald A. Erickson/

Donald A. Erickson
Chief Operating Officer
Oregon Aging and People with Disabilities and Office of Developmental Disability Services

cc: Mary Gabriel, Oregon DDS
Erinn Kelley-Siel, Director
Eric L. Moore, Chief Financial Officer

Appendix D – MAJOR CONTRIBUTORS

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Joseph Robleto, Audit Manager

Timothy E. Meinholz, Senior Auditor

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