



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

Audit Report

Costs Claimed by the Texas Disability Determination Services

A-55-20-00001 | September 2021



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

September 22, 2021

Mary Wolfe
Administrator
Texas Disability Determinations Services
6101 E. Oltorf Street
Austin, TX 78741

Dear Ms. Wolfe:

The Social Security Administration (SSA) contracted with Grant Thornton LLP (Grant Thornton), an independent certified public accounting firm, to conduct an administrative cost audit of the Texas Disability Determination Services for the periods October 1, 2017 through September 30, 2018 and October 1, 2018 through September 30, 2019. In addition, Grant Thornton conducted an indirect cost audit for the period October 1, 2016 through September 30, 2017. Grant Thornton's performance audit objectives were to:

- evaluate internal controls over the accounting and reporting of administrative costs;
- determine whether the administrative costs claimed on the March 31, 2020 *State Agency Report of Obligations for Social Security Administration Disability Programs* (Form SSA-4513) were allowable and properly allocated;
- reconcile funds drawn down with claimed costs; and
- assess the general security controls environment.

The enclosed final report presents the results of Grant Thornton's audit. Grant Thornton is responsible for the report and the opinions and conclusions expressed therein. The Office of the Inspector General (OIG) was responsible for technical and administrative oversight of Grant Thornton's performance under the contract terms. We monitored Grant Thornton's work by

- evaluating the independence, objectivity, and qualifications of the auditors and specialists;
- monitoring the audit's progress at key points;
- examining Grant Thornton's documentation related to planning the audit, assessing internal control, and substantive testing;
- reviewing and coordinating the issuance of Grant Thornton's audit report; and
- performing other procedures we deemed necessary.

Our monitoring disclosed no instances where Grant Thornton did not comply, in all material respects, with the standards for performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Page 2 –Mary Wolfe

The Texas Disability Determination Services should provide SSA a corrective action plan within 60 days that addresses each recommendation. If you wish to discuss the final report, please contact me or have your staff contact Vicki Vetter, Director of the Financial Audit Division.

Sincerely,

A handwritten signature in dark ink that reads "Michelle L. Anderson". The signature is written in a cursive, flowing style.

Michelle L. Anderson
Assistant Inspector General for Audit

Enclosure

cc:

Grace M. Kim, Deputy Commissioner, Operations

Cecile E. Young, Executive Commissioner, Texas Health and Human Services Commission

Costs Claimed by the Texas Disability Determination Services

A-55-20-00001



September 2021

Office of Audit Report Summary

Objective

To (1) evaluate internal controls over the accounting and reporting of administrative costs by the Texas Disability Determination Services (TX-DDS) for Fiscal Years (FY) 2018 and 2019, as well as indirect costs for FY 2017; (2) determine whether the administrative costs claimed on the most recently submitted Form SSA-4513 were allowable and properly allocated; (3) reconcile funds drawn down with claimed costs; and (4) assess the general security controls environment.

Background

TX-DDS performs disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs in accordance with Federal regulations. TX-DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses TX-DDS for 100 percent of allowable expenditures, including direct and indirect costs. The TX-DDS' parent agency is the Texas Health and Human Services Commission.

SSA contracted with Grant Thornton LLP (Grant Thornton) to conduct this audit. The Office of the Inspector General was responsible for technical and administrative oversight of Grant Thornton's performance under the contract terms.

Findings

Grant Thornton found the TX-DDS' controls over the accounting and reporting of administrative costs for FYs 2018 and 2019 (and indirect costs for FY 2017), as well as its general security controls, could be strengthened to ensure compliance with applicable criteria.

As of March 31, 2020, TX-DDS was unable to provide documentation to support indirect costs with projected totals of \$5,053,472, \$3,343,538, and \$74,437 for FYs 2017, 2018, and 2019, respectively. Additionally, the auditors found that as of March 31, 2020, cumulative drawdowns exceeded cumulative disbursements for FYs 2018 and 2019 by \$1,558,648 and \$309,111, respectively.

Recommendations

Grant Thornton outlined eight recommendations for the TX-DDS to enhance its internal control environment for control gaps and other findings noted during its audit. Grant Thornton outlined recommendations in a separate memorandum for general security controls.

The full text of the TX-DDS' response is included in Appendix C. SSA was provided the report for comment and, although not required, did not provide comments on the recommendations.

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ABBREVIATIONS

Act	<i>Social Security Act</i>
CE	Consultative Examinations
C.F.R.	Code of Federal Regulations
CPT	Current Procedural Terminology
DDS	Disability Determination Services
DI	Disability Insurance Program
FY	Fiscal Year
Form SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
Form SSA-4514	<i>Time Report of Personnel Services for Disability Determination Services</i>
HHSC	Health and Human Services Commission
PACAP	Public Assistance Cost Allocation Plan
POMS	Program Operations Manual System
OIG	Office of the Inspector General
SSA	Social Security Administration
SSI	Supplemental Security Income
TX-DDS	Texas Disability Determination Services
U.S.C.	United States Code

MEMORANDUM

Date: September 22, 2021

To: Gail S. Ennis
Inspector General

From: Grant Thornton LLP

Subject: **GRANT THORNTON AUDIT REPORT – COSTS CLAIMED BY THE TEXAS DISABILITY DETERMINATION SERVICES**

We have conducted a performance audit (also referred to as an “audit” herein) on the Texas Disability Determination Services’ (TX-DDS) administrative costs incurred in connection with conducting disability determinations in support of the Social Security Administration (SSA) (the “program”) by (1) determining whether the administrative costs claimed for the years ended September 30, 2018 and 2019 (as well as indirect costs for the year ended September 30, 2017) on the *State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513)*, adjusted through March 31, 2020, were allowed and properly allocated; (2) reconciling funds drawn down with claimed costs on those forms; and (3) evaluating the internal controls over the accounting and reporting of administrative costs for the same period. We also (4) assessed the general security controls environment by conducting inquiries and inspections for the period from October 1, 2019 through September 30, 2020 as well as observations through March 31, 2021 (as further described in Appendix A). (Items 1-4 represent the “audit objectives”).

The applicable criteria are set forth in the Code of Federal Regulations (C.F.R.) Title 2 – *Grants and Agreements*, Subchapter A, Chapter II, Part 225 *Cost Principles for State, Local, and Indian Tribal Governments* (2 C.F.R., part 225) and the Government Accountability Office’s *Federal Information System Controls Audit Manual*, in addition to applicable criteria that are identified in the body of the accompanying report. It is the responsibility of the TX-DDS’ management to conduct the program in accordance with the criteria and the program objectives. Our responsibility is to report our findings and conclusions related to the audit objectives.

We conducted this performance audit in accordance with the standards for performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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. A performance audit involves performing procedures to obtain evidence about the TX-DDS’ program in order to audit administrative costs and the related internal controls, as well as general security controls, as outlined in the audit objectives in the opening paragraph above. The nature, timing, and extent of the procedures selected depend on our judgment. A performance audit also includes consideration of internal controls related to the program and audit objectives as a basis for designing procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the

TX-DDS' internal control. Accordingly, we express no such conclusion related to the TX-DDS' internal controls. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our findings and conclusions based on our audit objectives.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of this performance audit were (1) to determine whether the administrative costs claimed for the years ended September 30, 2018 and 2019 (as well as indirect costs for the year ended September 30, 2017) on the Form SSA-4513, adjusted through March 31, 2020, were allowed and properly allocated; (2) reconciling funds drawn down with claimed costs on those forms; and (3) evaluating the internal controls over the accounting and reporting of administrative costs for the same period. We also (4) assessed the general security controls environment by conducting inquiries and inspections for the period from October 1, 2019 through September 30, 2020 as well as walkthroughs through March 31, 2021.

To accomplish these objectives, we gained an understanding of the processes and information systems TX-DDS used to account for the administrative costs it incurred in connection with conducting disability determinations in support of SSA. We interviewed appropriate TX-DDS staff as well as SSA regional office representatives; inspected available written TX-DDS procedures, applicable Federal regulations, the *Social Security Act* (Act), SSA policies and procedures pertaining to the TX-DDS and prior work performed by SSA or its Office of the Inspector General over DDS administrative costs. In addition, we performed live walkthroughs of business processes and information systems, obtained transactional listings, ascertained the completeness of the listings, and compared a sample of transactions to supporting documentation to corroborate administrative costs claimed and funds drawn down. Our tests of the general security system environment comprised tests over physical and system security controls consisting of live walkthroughs, inspections, and inquiries. In some instances, information we requested was not made available to us; therefore, our approach was limited in certain aspects as further described below.

To meet the above objectives, we defined our scope based on areas of audit significance. For financial data, we determined significance based on TX-DDS' total claimed costs presented on the Form SSA-4513 for each applicable fiscal year (FY). In FYs 2018 and 2019 as of March 31, 2020, the TX-DDS claimed administrative costs totaling approximately \$223 million (\$111,426,209 and \$111,562,683, respectively). As of March 31, 2020, the FY 2017 indirect cost totaled \$5,053,472. Refer to Appendix B for the Form SSA-4513 for each FY. We used a variety of statistical and non-statistical sampling techniques to test the 4513 line items. Where statistical sampling was used, we projected any errors noted to the entire population.

For information security testing, our scope was limited to the TX-DDS' general security environment and its disability case processing system.

BACKGROUND

The Disability Insurance (DI)¹ program, established under Title II of the Act, provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI)² program, established under Title XVI of the Act, provides benefits to financially needy individuals who are aged, blind, and/or disabled.

SSA is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by disability determination services (DDS) and Federal disability units in each State and U.S. territory as well as the District of Columbia in accordance with Federal regulations. 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 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 TX-DDS for 100 percent of allowable expenditures incurred in connection with conducting disability determinations. Allowable expenditures include both direct and indirect costs. Direct costs can be identified with a particular cost objective. Indirect costs arise from activities that benefit multiple programs but are not readily assignable to these programs without effort disproportionate to the results achieved. The TX-DDS claims reimbursement for both direct and indirect costs claimed from SSA in relation to its disability programs.

The TX-DDS uses various customized systems to process disability claims and other non-SSA workloads and has responsibility for security measures for its sites and systems. SSA requires that the TX-DDS comply with its Program Operations Manual System (POMS).³

The TX-DDS' parent agency is the Texas Health and Human Services Commission (HHSC), which provides the TX-DDS with financial, accounting, and personnel services and performs tasks such as approval of all DDS-related payments, payroll processing, and indirect cost allocations.

RESULTS

Our audit procedures were performed on items determined to be in-scope as described above and where relevant information was made available to us.

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. sections 404.315, 404.330, and 404.350 (ecfr.gov).

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. section 416.110 (ecfr.gov).

³ The POMS is a primary source of information used by Social Security employees to process claims for Social Security benefits (<https://secure.ssa.gov/apps10/>).

Objective 1: Evaluate Internal Control over the Accounting and Reporting of Administrative Costs

Our testing disclosed instances where the TX-DDS' internal controls over the accounting and reporting of administrative costs for FYs 2018 and 2019 (and indirect costs for FY 2017) could have been strengthened.

Indirect Costs – Approved Costs Pools

For FY 2017, the TX-DDS recorded indirect costs based on allocations from four cost pools that were not approved per the 2017 Public Assistance Cost Allocation Plan (PACAP) in accordance with 2 C.F.R. part 225⁴. We noted similar instances in FYs 2018 and 2019. TX-DDS should allocate indirect costs in accordance with the plan.

As the parent agency, HHSC is responsible for determining the amount of costs to be allocated to the TX-DDS, and the TX-DDS does not have a control to ensure costs pools are updated to reflect changes to the PACAP. This could result in the TX-DDS incurring costs that do not qualify for reimbursement in accordance with the PACAP.

Unliquidated Obligation Projection

We noted a difference of \$11,860 between the amount of unliquidated obligations per the FY2018 SSA-4513 as of March 31, 2020 and the Automated Standard Applications for Payments (ASAP) report for the same period. The ASAP report is derived from the cash management system and documents the remaining unliquidated obligations for the FY. Therefore, the unliquidated obligations for both reports are expected to agree. Estimated amounts are acceptable when an obligation is definite, but the precise amount is not known.

TX-DDS did not have appropriate controls in place to detect when the unliquidated obligation per SSA-4513 is out of alignment with the remaining obligation amount per the ASAP report. Per POMS DI 39506.203, State agencies should review unliquidated obligations at least once each month to cancel those no longer valid.

Additionally, we noted that more than six months after the close of FY 2019, TX-DDS had only liquidated \$74,437 of the total indirect obligations of \$4,220,698 leaving more than 98 percent unobligated. Federal regulations allow 5 years for liquidation of obligated funds⁵; however, the large amount of unliquidated obligations more than six months after the close of the fiscal year demonstrates a lack of timely accounting for transactions as well as potential inappropriate obligations of funds in excess of amounts determined to be reasonable. As noted below, the

⁴ Per 2 C.F.R. part 225, PACAP is described as a "narrative description of the procedures that will be used in identifying, measuring and allocating all administrative costs to all of the programs administered or supervised by State public assistance agencies".

⁵ 31 U.S.C. Section 1552 states "On September 30th of the 5th fiscal year after the period of availability for obligation of a fixed appropriation account ends, the account shall be closed and any remaining balance (whether obligated or unobligated) in the account shall be canceled and thereafter shall not be available for obligation or expenditure for any purpose." (ecfr.gov)

lack of timely accounting for obligations impacts the TX-DDS' ability to comply with the criteria in 2 C.F.R. part 225 for indirect cost allowability as further described below in Objective 2. This also inhibits SSA's ability as the awarding federal agency to account for award obligations and payments in a timely manner.

Verification of Medical Qualifications

For FYs 2018 and 2019, the TX-DDS did not provide sufficient evidence that it verified the qualifications and credentials for sampled providers it hires to perform disability determinations, as required. For instance, for FY 2018, the TX-DDS did not provide evidence that a review of the System for Award Management was performed for 20 of 49 sampled providers nor did it provide documented evidence for 29 of 49 sample providers that medical credentials were verified. Similar findings were noted for FY 2019.

Per POMS,⁶ before using the services of any new medical or psychological consultant, a DDS must verify licenses, credentials, and certifications with State boards. The documentation should include the date and name of the individual who completes the verification and the date the verification was completed.

The lack of consistent documentation evidencing a date of review of required medical consultant credentials affects management's ability to monitor its medical consultants and ensure compliance with POMS criteria for medical consultants who provide services for the TX-DDS.

Current Procedural Terminology Codes

For FY 2018 and FY 2019, the TX-DDS utilized 5 and 9 Current Procedural Terminology (CPT) codes, respectively, in its case processing system that were not included in the approved fee schedule for payment. The TX-DDS does not have proper controls in place to ensure that CPT codes per the case processing system reflect the same codes per the approved fee schedule. Per POMS⁷, DDS case processing/fiscal system should be programmed to ensure that all payments authorized are consistent with the fee schedule or any approved exemptions to the fee schedule.

Although our testing noted no dollar impact, payments for consultative examinations could be issued without the appropriate CPT code and fee approval resulting in disallowable costs.

Periodic Certifications

For the FY 2018 and 2019 quarters we selected for testing, the TX-DDS did not provide the requested evidence of periodic certifications for employees who work solely on DDS activities. When employees are expected to work on a single Federal award or cost objective, charges for

⁶ SSA, POMS, DI 39569.300 *Disability Determination Services Requirements for Ensuring Licensures, Credentials, and Exclusions of Consultative Examination (CE) Providers, CE Provider's Employees, Medical and Psychological Consultants.*

⁷ SSA, POMS, DI 39545.700 *Maintaining and Monitoring Fee Schedules.*

their salaries and wages are supported by periodic certifications that the employee worked solely on that program for the period covered by the certification.⁸ These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first-hand knowledge of the work the employee performed.

The TX-DDS' interpretation of the C.F.R. requirement is that the periodic certifications are not required to specifically name each employee covered by the certification. The inability to document periodic certifications in accordance with the C.F.R. increases the risk that time may be inaccurately allocated to the Federal program.

Objective 2: Determine Whether the Administrative Costs Claimed on the Most Recently Submitted Form SSA-4513 Were Allowable and Properly Allocated

Based on the procedures we followed to determine whether administrative costs were allowable and properly allocated, we determined that administrative costs, as shown in Table 1, did not meet the criteria for allowability per 2 C.F.R. Part 225.

Indirect Cost Allocation

The TX-DDS could not provide documentation to support the sample of indirect cost disbursements selected for testing for FYs 2017, 2018, and 2019. We tested a sample of indirect cost disbursements to determine the appropriateness of the costs charged to the TX-DDS. We requested original invoices and payroll detail (for allocated payroll costs) to support the allocation base and percentage (factor) calculations for each sample. For each year tested, the TX-DDS could not provide sufficient evidence to support the calculation of the allocated indirect cost for each of the sampled items. For example, in FY 2017, TX-DDS could not provide invoices for 37 of 42 non-payroll sampled items. In FY 2018, TX-DDS could not provide the factor calculations used to support the allocations for 81 of 108 and transactions sampled and all 44 sampled items in FY 2019.

TX-DDS and its parent agency, HHSC, explained that neither entity maintains documentation to support the estimated factor calculations once actual amounts are determined. As a result, they could not support many of the factor calculations used to determine the indirect cost allocations charged to SSA. Additionally, TX-DDS did not maintain other supporting documentation in a manner that would allow personnel to retrieve documentation within a reasonable time. Based on the lack of documentation provided, we were unable to determine whether amounts outlined in Table 1 were allowable and properly allocated.

Based on the results of our testing, we determined the projected unsupported costs amounted to 100 percent of the Indirect Cost disbursements of \$5,053,472, \$3,343,538, and \$74,437 for FYs 2017, 2018, and 2019, respectively.

⁸ 2 C.F.R., part 225, Appendix B, subsection h.

Table 1: TX-DDS Projected Unsupported Costs

Indirect Costs	FY 2017 Projected Unsupported Costs	FY 2018 Projected Unsupported Costs	FY 2019 Projected Unsupported Costs
Sampled dollars	\$(605,057)	\$(1,839,545)	\$(126,093)
Percent of sampled dollars that were unsupported	100%	100%	100%
Projected unsupported costs	\$5,053,472	\$3,343,538	\$74,437 ⁹

Objective 3: Reconcile Funds Drawn Down with Claimed Costs

Cash Drawdowns

SSA reimburses TX-DDS for 100 percent of allowable expenditures, including direct and indirect costs. During our cash management testing for the period ended March 31, 2020, we compared the total cash disbursements made by the HHSC on behalf of the TX-DDS as reported on the SSA-4513s to the amount of cash drawdowns reported on the ASAP report.

For FY 2018 as of the March 31, 2020 reporting period, HHSC had drawn down the authorized award amount of \$112,984,857 rather than the amount of disbursements it made for that same period of \$111,426,209. This resulted in excess drawdowns of \$1,558,648 for the FY 2018 award as of March 31, 2020. The TX-DDS subsequently returned \$493,313 of this excess amount to SSA.

Similarly, for FY 2019 as of the March 31, 2020 reporting period, HHSC drew down the authorized award amount of \$111,871,794 rather than the amount of disbursements for that same period of \$111,562,683. This resulted in excess drawdowns of \$309,111 as of March 31, 2020.

Per C.F.R., Title 31 – Money and Finance: Treasury, subchapter A, chapter II, part 205 Rules and Procedures for Efficient Federal-State Funds Transfers (31 C.F.R., part 205.12), reimbursable funding means a Federal agency transfers Federal funds to a State after that State has already paid out the funds to a Federal assistance program. As noted above, HHSC requested funding from SSA prior to having paid out the funds which is inconsistent with the reimbursement criteria stated in 31 C.F.R., part 205.12. HHSC did not have the proper controls in place to prevent or detect when drawdowns exceed the amount of its actual disbursements as claimed on the SSA-4513.

⁹ The FY 2019 projected unsupported costs are based on indirect cost disbursements per the Form SSA-4513 as of March 31, 2020, as shown in Appendix B. As of that same period, TX-DDS had recorded total indirect cost obligations of \$4,220,698, leaving \$4,146,261 (98 percent) in unliquidated obligations. Refer to finding noted above in Objective 1 regarding the importance of timely liquidation of obligations.

Objective 4: Assess the General Security Controls Environment

Grant Thornton assessed the design and implementation of general security controls as they pertained to the TX-DDS and its legacy case processing system, a server that resides on the SSA network. In addition, we assessed the operating effectiveness of specific physical access and systems access controls, determined based on control objective and frequency. The objective and scope of testing has been defined in detail within *Appendix A - Scope and Methodology*. Due to the sensitive nature of these controls, we present the results and associated findings in a separate memorandum.

CONCLUSIONS AND RECOMMENDATIONS

Based on the procedures performed, we noted areas where internal control over accounting and reporting of administrative costs as well as general security controls needed improvement. We noted that projected indirect costs of \$5,053,472, \$3,343,538, and \$74,437 as claimed on the Form SSA-4513 for FYs 2017, 2018, and 2019, respectively, as of March 31, 2020 did not meet criteria for allowability. Additionally, as of March 30, 2020, cumulative drawdowns exceeded cumulative disbursements for FYs 2018 and 2019 by \$1,558,648 and \$309,111, respectively. We have the following recommendations.

Objective 1

1. We recommend TX-DDS implement a procedure to ensure the cost pools included are based on the latest approved TX-DDS' current PACAP.
2. We recommend TX-DDS implement controls to ensure unliquidated obligations are reviewed timely to ensure obligated amounts are reasonable and supportable in accordance with 2 C.F.R., part 225. The reviews should also ensure unliquidated amounts per SSA-4513 are consistent with the amounts in the ASAP report for the same period.
3. We recommend TX-DDS maintain sufficient documentation to evidence the date that all required medical credentials and qualifications are verified by an appropriate employee.
4. We recommend that timely CPT code and fee updates be made to the fiscal system so CPT coding and fees per internal and external documents aligned with approvals in accordance with *POMS*, DI 39545.700.
5. We recommend TX-DDS perform a comprehensive review of its procedures for period certifications and ensure the certifications are performed and documentation is maintained that is sufficient to support the wages charged to the Federal award for applicable employees.

Objective 2

6. We recommend TX-DDS maintain documentation of all factor calculations used to determine indirect cost allocations, including estimate calculations. This documentation should be maintained for the time necessary to support costs claimed for reimbursement on the SSA-4513.

Objective 3

7. We recommend TX-DDS work with its parent agency, HHSC, to develop controls to ensure the amount of reimbursement is limited to the appropriate amount (the amount of disbursements) before the draw down occurs.
8. We recommend TX-DDS analyze the amounts of disbursements claimed for FY 2018 and 2019 and reconcile to its drawdown requests for the next quarterly submission of the 4513 to determine whether additional excess drawdowns remain.

Objective 4

Due to the sensitive nature of general security controls, we present recommendations for the TX-DDS to strengthen its general security controls environment in a separate memorandum.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have issued reportable findings in the body of this report. The purpose of this reporting is to communicate, as applicable, noncompliance with the criteria; deficiencies in internal control; and instances of fraud, or noncompliance with the provisions of laws, regulations, contracts or grant agreements that are significant within the context of the audit objectives. It also includes those deficiencies in internal control that are not significant within the context of the audit objectives, but which warrant the attention of those charged with governance. Reporting these items is an integral part of a performance audit performed in accordance with *Government Auditing Standards* in considering the TX-DDS internal control and compliance related to the audit objectives.

TX-DDS' RESPONSE

The full text of the TX-DDS' response is included in Appendix C. The TX-DDS' response to our findings was not subjected to the auditing procedures applied in the audit, and accordingly, we express no opinion on the TX-DDS' response. We evaluated the additional context provided by the TX-DDS in its response to the audit findings. While we understand the demands that an audit can create on entity operations, our findings reflect departures that we noted from the applicable criteria as well as the lack of available evidence to substantiate costs claimed by the TX-DDS for reimbursement and other documentation necessary to fulfill the objectives of the audit. SSA was provided the report for comment and, although not required, did not provide comments on the recommendations.

Intended Purpose

The purpose of this performance audit report is solely to report our findings and conclusions in relation to the audit objectives. Accordingly, this report is not suitable for any other purpose.

Grant Thornton LLP

Baltimore, Maryland
September 20, 2021

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We obtained sufficient, appropriate evidence to evaluate the performance audit objectives for the Texas Disability Determination Service (DDS) in accordance with applicable *Government Auditing Standards* (GAS). To accomplish the objectives, we completed the following.

- Reviewed the applicable Federal regulations, the *Social Security Act*, and SSA Program Operations Manual System (POMS).
- Reviewed prior Office of the Inspector General (OIG) work over the Texas DDS as well as available and relevant Single Audits performed by the State's auditor.
- Communicated with the Social Security Administration's (SSA) Office of Disability Determination, SSA's Dallas Regional Office, Texas DDS, and the Texas Health and Human Services Commission (Parent Agency) staff to obtain background information.
- Reconciled TX-DDS transactional listings to the administrative costs reported on its submitted Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, for Federal Fiscal Years (FY) 2017 (indirect cost only), 2018 and 2019.

The fourth audit objective was to assess general security controls. Due to the sensitive nature of general security controls, we presented the results and recommendations in a separate memorandum.

We determined and applied the following performance materiality for each tested fiscal year as shown in the table below.

Table A-1: TX-DDS Performance Materiality

Materiality Type	FY 2017	FY 2018	FY 2019
Performance Materiality	\$1,123,000	\$1,250,000	\$1,251,000

Sampling

Our sampling methodology encompassed four general areas of costs as reported on the Social Security Administration's (SSA) Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*: (1) Personnel, (2) Medical, (3) Indirect, and (4) All Other Non-personnel Costs.

Personnel Service Costs

For payroll costs, we randomly selected two pay periods and a total 50 samples for each fiscal year for FY18 and FY19. Other Personnel Service Costs (medical consultants) were segregated and sampled using Monetary Unit Sampling (MUS) and randomly selected 24 and 31 samples for FY18 and FY19, respectively and the sampling tool sample size is synonymous with the IDEA selected sample size.

Medical Costs

For consultative examinations, we used MUS sampling and selected 51 and 57 for FY18 and FY19, respectively and the sampling tool sample size is synonymous with the IDEA selected sample size. For medical evidence of records transactions, the sampling tool calculated 31 and 32 samples for FY18 and FY19 respectively but we randomly selected 50 samples for each FY. The discrepancies between the sampling tool and the sample selections are due to selecting the recommended sample size of 50 or more as indicated in the Sampling Methodology Memorandum.

Indirect Costs

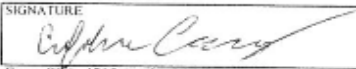
For indirect costs, the total population for negatives exceeded our materiality. Therefore, we used MUS sampling and selected 48 positive and 33 negative samples for FY17, 59 positive and 49 negative samples for FY18, and 22 positive and 22 negative samples for FY19. Unless otherwise noted, the sampling tool sample size is synonymous with the IDEA selected sample size. Note that for FY17, the sampling tool generated a sample size of 33 for negative values. IDEA only selected 31 samples for negative as a result of two high value items of \$735k and \$496k, both greater than the sampling interval of \$337k. Similarly, for FY18, the sampling tool generated a sample size of 49 for negative values, while IDEA only selected 47 samples as a result of two high value items of \$754k and \$517k, both greater than the sampling interval of \$340k.

All Other Non-Personnel Costs

Before selecting the sample items, we segregated high dollar value transactions related to lease payments within occupancy costs and will test these items in their entirety. The remainder of the costs within All Other Non-Personnel Costs were subject to MUS. We randomly selected 13 and 14 samples for FY18 and FY19, respectively. Unless otherwise noted, the sampling sample size is synonymous with the IDEA selected sample size. For FY19, the sampling tool generated a sample size of 14, while IDEA selected a sample size of 15 due to the immaterial balance of negative values (\$123k) not subject to testing, driving the actual tested population value up to \$7.1m.

Appendix B – FORMS SSA-4513

FY2017¹ State Agency Report of Obligations for SSA Disability Programs

Social Security Administration		Form Approved OMB No. 0560-0421	
STATE AGENCY REPORT OF OBLIGATIONS FOR SSA DISABILITY PROGRAMS			
(See attached Instructions and Paperwork/Privacy Act Notice)			
NAME OF AGENCY Texas Health and Human Services Commission <i>**Final Report**</i>		STATE Texas	
FISCAL YEAR 2017	FOR PERIOD From: 10/1/2016 To: 9/30/2019		
REPORTING ITEMS - ALL TITLES	(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS	(C) TOTAL OBLIGATIONS
1. Personnel Service Costs	63,827,961	0	63,827,961
2. Medical Costs <i>(sum of 2a + 2b)</i>	37,261,091	0	37,261,091
a. Consultative Examinations <i>(sum of a1 + a2 + a3)</i>	28,106,028	0	28,106,028
1) Disability Insurance (DI) Claims	7,155,684	0	7,155,684
2) Supplemental Security Income (SSI) Claims	12,299,420	0	12,299,420
3) Concurrent DI/SSI Claims	8,650,924	0	8,650,924
b. Medical Evidence of Record <i>(sum of b1 + b2 + b3)</i>	9,155,063	0	9,155,063
1) Disability Insurance (DI) Claims	2,240,177	0	2,240,177
2) Supplemental Security Income (SSI) Claims	3,717,069	0	3,717,069
3) Concurrent DI/SSI Claims	3,197,817	0	3,197,817
3. Indirect Costs <i>(see attached addendums)</i>	5,053,472	0	5,053,472
4. All Other Nonpersonnel Costs	8,980,369	0	8,980,369
a. Occupancy	3,886,886	0	3,886,886
b. Contracted Costs (exclude EDP)	2,833,682	0	2,833,682
c. EDP Maintenance	549,330	0	549,330
d. New EDP Equipment/Upgrades	21,171	0	21,171
e. Equipment Total	83,684	0	83,684
1) Purchases	0	0	0
2) Rental	83,684	0	83,684
f. Communications	496,327	0	496,327
g. Applicant Travel	349,996	0	349,996
h. DDS Travel	73,381	0	73,381
i. Supplies	644,836	0	644,836
j. Miscellaneous	41,076	0	41,076
5. Total: <i>(sum of 1 thru 4)</i>	115,122,893	0	115,122,893
6. Cumulative Obligational Authorization			115,869,320 115,122,893 115,102,089
7. SSA-871 Attached? YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>			
I CERTIFY THAT THE ABOVE REPORT AND ANY SUPPORTING STATEMENTS ARE TRUE STATEMENTS OF DISBURSEMENTS AND UNLIQUIDATED OBLIGATIONS FOR DETERMINATIONS OF DISABILITY UNDER THE PROVISIONS OF THE SOCIAL SECURITY ACT, AS AMENDED.			
SIGNATURE 	TITLE HHSC Accounting Manager	DATE 10/22/2017	

Form SSA-4513 (revised 06/2001)

¹ The FY2017 Form SSA-4513 was provided in the altered state shown above and reflects the final close out amount of the spending for the award year. The close out of the award was effective as of September 30, 2019; therefore, this is the latest period for which a form 4513 was made available for FY2017 funds.

FY2018 State Agency Report of Obligations for SSA Disability Programs

Social Security Administration

Form Approved OMB No. 0960-0421

STATE AGENCY REPORT OF OBLIGATIONS FOR SSA DISABILITY PROGRAMS

(See attached Instructions and Paperwork/Privacy Act Notice)

NAME OF AGENCY Texas Health and Human Services Commission		STATE Texas	
FISCAL YEAR 2018	FOR PERIOD From: 10/1/2017 To: 3/31/2020		
REPORTING ITEMS - ALL TITLES	(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS	(C) TOTAL OBLIGATIONS
1. Personnel Service Costs	62,213,683.72	0.00	62,213,683.72
2. Medical Costs <i>(sum of 2a+2b)</i>	36,543,564.88	10,715.00	36,554,279.88
a. Consultative Examinations <i>(sum of a1+a2+a3)</i>	26,218,372.89	6,818.00	26,225,190.89
1) Disability Insurance (DI) Claims	6,657,827.39	1,731.35	6,659,558.74
2) Supplemental Security Income (SSI) Claims	11,322,318.67	2,944.33	11,325,263.00
3) Concurrent DI/SSI Claims	8,238,226.83	2,142.32	8,240,369.15
b. Medical Evidence of Record <i>(sum of b1+b2+b3)</i>	10,325,191.99	3,897.00	10,329,088.99
1) Disability Insurance (DI) Claims	2,576,698.60	972.52	2,577,671.12
2) Supplemental Security Income (SSI) Claims	4,013,345.70	1,514.74	4,014,860.44
3) Concurrent DI/SSI Claims	3,735,147.69	1,409.74	3,736,557.43
3. Indirect Costs <i>[see attached addendum]</i>	3,343,538.26	0.00	3,343,538.26
4. All Other Nonpersonnel Costs	9,325,421.91	1,144.68	9,326,566.59
a. Occupancy	3,939,114.89	0.00	3,939,114.89
b. Contracted Costs (exclude EDP)	2,984,765.11	0.00	2,984,765.11
c. EDP Maintenance	570,042.44	0.00	570,042.44
d. New EDP Equipment/Upgrades	14,262.86	0.00	14,262.86
e. Equipment Total	61,518.42	0.00	61,518.42
1) Purchases	0.00	0.00	0.00
2) Rental	61,518.42	0.00	61,518.42
f. Communications	460,420.63	0.00	460,420.63
g. Applicant Travel	326,179.15	1,144.68	327,323.83
h. DDS Travel	83,836.18	0.00	83,836.18
i. Supplies	851,698.06	0.00	851,698.06
j. Miscellaneous	33,584.17	0.00	33,584.17
5. Total: <i>(sum of 1 thru 4)</i>	111,426,208.77	11,859.68	111,438,068.45
6. Cumulative Obligational Authorization			112,984,857.00

7. SSA-871 Attached?

YES ☐ NO ☒

I CERTIFY THAT THE ABOVE REPORT AND ANY SUPPORTING STATEMENTS ARE TRUE STATEMENTS OF DISBURSEMENTS AND UNLIQUIDATED OBLIGATIONS FOR DETERMINATIONS OF DISABILITY UNDER THE PROVISIONS OF THE SOCIAL SECURITY ACT, AS AMENDED.

SIGNATURE <i>Lesa Brown</i>	TITLE HHSC Federal Reporting Manager	DATE 4/28/20
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Form SSA-4513 (revised 06/2001)

FY2019 State Agency Report of Obligations for SSA Disability Programs

Social Security Administration

Form Approved OMB No. 0960-0421

STATE AGENCY REPORT OF OBLIGATIONS FOR SSA DISABILITY PROGRAMS

(See attached Instructions and Paperwork/Privacy Act Notice)

NAME OF AGENCY Texas Health and Human Services Commission		STATE Texas	
FISCAL YEAR 2019	FOR PERIOD From: 10/1/2018 To: 3/31/2020		
REPORTING ITEMS - ALL TITLES	(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS	(C) TOTAL OBLIGATIONS
1. Personnel Service Costs	65,755,535.15	0.00	65,755,535.15
2. Medical Costs <i>(sum of 2a+2b)</i>	36,044,841.79	67,433.00	36,112,274.79
a. Consultative Examinations <i>(sum of a1+a2+a3)</i>	25,433,804.81	35,583.00	25,469,387.81
1) Disability Insurance (DI) Claims	6,676,443.23	9,340.63	6,685,783.86
2) Supplemental Security Income (SSI) Claims	10,859,466.50	15,192.87	10,874,659.37
3) Concurrent DI/SSI Claims	7,897,895.08	11,049.50	7,908,944.58
b. Medical Evidence of Record <i>(sum of b1+b2+b3)</i>	10,611,036.98	31,850.00	10,642,886.98
1) Disability Insurance (DI) Claims	2,713,688.95	8,145.39	2,721,834.34
2) Supplemental Security Income (SSI) Claims	4,154,715.46	12,470.76	4,167,186.22
3) Concurrent DI/SSI Claims	3,742,632.57	11,233.85	3,753,866.42
3. Indirect Costs <i>[see attached addendum]</i>	74,436.88	4,146,261.42	4,220,698.30
4. All Other Nonpersonnel Costs	9,687,869.58	9,674.18	9,697,543.76
a. Occupancy	3,974,461.87	0.00	3,974,461.87
b. Contracted Costs (exclude EDP)	3,610,154.56	195.00	3,610,349.56
c. EDP Maintenance	589,699.43	0.00	589,699.43
d. New EDP Equipment/Upgrades	13,053.69	0.00	13,053.69
e. Equipment Total	58,856.18	272.29	59,128.47
1) Purchases	0.00	0.00	0.00
2) Rental	58,856.18	272.29	59,128.47
f. Communications	410,514.64	47.77	410,562.41
g. Applicant Travel	367,017.75	5,869.29	372,887.04
h. DDS Travel	37,830.71	0.00	37,830.71
i. Supplies	378,278.10	3,289.83	381,567.93
j. Miscellaneous	248,002.65	0.00	248,002.65
5. Total: <i>(sum of 1 thru 4)</i>	111,562,683.40	4,223,368.60	115,786,052.00
6. Cumulative Obligational Authorization			115,786,052

7. SSA-871 Attached?

YES ☒ NO ☐

I CERTIFY THAT THE ABOVE REPORT AND ANY SUPPORTING STATEMENTS ARE TRUE STATEMENTS OF DISBURSEMENTS AND UNLIQUIDATED OBLIGATIONS FOR DETERMINATIONS OF DISABILITY UNDER THE PROVISIONS OF THE SOCIAL SECURITY ACT, AS AMENDED.

SIGNATURE <i>Lesa Brown</i>	TITLE HHSC Federal Reporting Manager	DATE 4/28/20
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Form SSA-4513 (revised 06/2001)

Appendix C – TEXAS DDS' RESPONSE



STATE OF TEXAS
Disability Determination for Social Security Administration



Mary Wolfe
DDS Administrator

August 20, 2021

Office of the Inspector General
Social Security Administration
6401 Security Blvd.
Baltimore, Maryland 21235-0001

Dear Assistant General Anderson,

This communication serves as a *revised* response from the TXDDS and State Parent Agency (SPA), HHSC, pursuant to your letter dated July 15, 2021 and the FY20 DDS Administrative Costs Audit Follow-up email of August 3, 2021, as well as a call with said partners on today's date at 11:30 am central time. Per directions, the TXDDS is to provide two documents, the first, which will be made public along with the final report. This response will satisfy document one. Under separate communication, as directed, document two related to DDS IT, will follow.

For the record, both leadership at the TXDDS and SPA, have over five decades of knowledge responding on behalf of the agency to both state and federal audits, at all levels, and believe this specific audit was nothing like we have ever experienced and has raised concerns within our agency on the validity of the findings and recommendations. From the initial engagement until receipt of the NFRs, there were concerns expressed to the SSA Regional Office that those auditing our state were ill prepared and unreasonable. On numerous occasions, the auditors asked for information they had previously requested and been provided. The number of samples requested for each fiscal year far exceeded the volume on previous audits, with no understanding or explanation of the scope. When TXDDS and/or SPA experts provided information to the auditors, it led to even more information being requested, resulting in significant audit creep. Again, due to their lack of understanding and unwillingness to seek clarity, samples requested contained data elements that were previously sampled, causing duplication of effort by TXDDS and our SPA, absent adding value to the audit.

For SSA and/or Grant Thornton to suggest the audit was in anyway delayed due to untimely responses or efforts on the part of a DDS or state, is simply not true. TXDDS submitted requested documents on time, only to have the

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auditors come back and ask for more documentation, without extending the initial requested deadline, making it seem that TXDDS was submitting documentation late. Examples further expressing our concerns are provided throughout this document to substantiate our concerns. TXDDS held numerous conference calls attempting to work with the audit team to collaborate and ensure understanding of information the auditors had requested. While this was helpful, there remained issues that were subjective and immaterial which did not fit the definition of cost benefit, again, demonstrating the audit 'creep' and lack of knowledge of those conducting the audit. For example, asking about expenditures that were off by \$1.20 due to the assigned auditor's misunderstanding of HHS payroll calculations. The TXDDS and our SPA have consistently been in compliance with Federal and State audit requirements and maintain compliance with; OMB-133, A-87 and Circular A-133, POMS, among others. To be clear, at the TXDDS and SPA, all programmatic goals and objectives for the funding were consistently met.

While we disagree not only with the way the audit was conducted, to include the oversight and unrealistic timelines, we also adamantly disagree with the recommendations offered by Grant Thornton. Their recommendations are not based on fact or accuracy of materials reviewed and requested.

Objective 1

1. We recommend TX-DDS implement a procedure to ensure the cost pools included are based on the latest approved TX-DDS' current PACAP.

State/TXDDS Response:

Grant Thornton's recommendation is not applicable and factually incorrect. The State and TXDDS are in compliance of federal regulations regarding PACAP. Per the Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government: ***A GUIDE FOR STATE, LOCAL AND INDIAN TRIBAL GOVERNMENTS, ASMB C-10***, "a state must promptly amend the public assistance cost allocation plan and submit the amended plan to the appropriate field office of the Division of Cost Allocation, HHS, whenever any of the following events occur:

- The procedures shown in the existing plan have become outdated because of organizational changes, changes in Federal law or regulation, or significant changes in program levels affecting the validity of approved cost allocation procedures;

- A material defect is discovered in the cost allocation plan by the Division of Cost Allocation field office or by the state;
- The state programmatic plan for public assistance programs is amended in a manner that affects the allocation of costs; or
- Other changes occur which make the allocation basis or procedures in the plan invalid (45 CFR § 95.509)."

In accordance with this guidance, HHSC does not amend the PACAP every time a new Department ID or Project ID is created, as new data elements are often added daily.

The auditor reports that SPA (HHS) uses "cost pools" that are not included in the PACAP. It is unclear if the auditor is referencing Department IDs, Project IDs, Factors or a combination.

This should be expected for some Department IDs and/or Project IDs for any PACAP submission because of timing. The SPA does not include new Department IDs or Project IDs in the PACAP if they are not in use in CAPPS-Fin by a set cut-off date (one month before each submission). Due to the size of the PACAP (currently 600+ pages), this time allows for the compilation of the document. New Department IDs or Project IDs can be used to charge past periods due to electronic transfer vouchers or delayed billing/expensing. In addition, Department IDs are added following a PACAP submission and apply to the same period as the submission as a normal course of business. There is no policy or procedure change that could avoid this, as the SPA cannot document a decision before it has been made. The SPA documents the new Department IDs or Project IDs on the PACAP submission following their implementation and use.

Furthermore, of the 405 distinct Department IDs submitted, 14 are not included in the PACAPs. ***PACAPs are a point-in-time document and at the time of PACAP compilation, only Department IDs with expenditures or budget in the last three years are included in the compilation. These 14 Department IDs either had negative expenditures or zero expenditures at the time the PACAP was compiled and were correctly excluded.***

2. We recommend TX-DDS implement controls to ensure unliquidated obligations are reviewed timely to ensure obligated amounts are reasonable and supportable in accordance with 2 C.F.R., part 225. The reviews should

also ensure unliquidated amounts per SSA-4513 are consistent with the amounts in the ASAP report for the same period.

State/TXDDS Response:

Grant Thornton's findings and recommendations are inaccurate and not applicable. Additionally, TXDDS has shared and will again, that the methodology described in POMS which states, ***"Where an obligation is definite, but the precise amount is not known, it may be estimated. The basis used in developing such estimates must be applied consistently from period to period."***

To include Indirect Cost "DDSs must report--on line 3 of the SSA-4513--all indirect costs that the State government has charged against the disability program for costs incurred during the period covered by the report. This should include the stated dollar amount, or the amount derived by applying to the specified base the percentage authorized in the State department or parent agency's approved indirect cost proposal. As stated previously, SSA POMS references and policies were applied and followed.

3. We recommend TX-DDS maintain sufficient documentation to evidence the date that all required medical credentials and qualifications are verified by an appropriate employee.

State/TXDDS Response:

Grant Thornton's recommendations are not accurate or applicable, as the TXDDS is in full compliance with SSA POMS. FACT: POMS DI 39569.300 does not specify how the name of the verifying employee and date are to be documented. The TX DDS provided documentation which included the name of the manager who provided verifications and the date that all required medical credentials and qualifications were verified. POMS DI 39569.300 does not require a line-item date, only the date and name of the employee verifying the license and source of verification. The requisite documentation was provided.

4. We recommend that timely CPT code and fee updates be made to the fiscal system so CPT coding and fees per internal and external documents aligned with approvals in accordance with POMS, DI 39545.700.

State/TXDDS Response:

Grant Thornton finding, and recommendation are not accurate, the TXDDS is in full compliance with SSA POMS. FACT: Consistent with POMS DI

39545.700, TXDDS does make timely CPT code and fee updates to the fiscal system. The internal fee schedule is updated annually following the publication and distribution of the American Medical Association (AMA) CPT Professional Book. In the same fashion that the AMA does not republish the CPT Code book after every individual code change, the TXDDS does not republish the fee schedule spreadsheet after every individual code change. Just like the AMA, the TXDDS updates and republishes the fee schedule on an annual basis. SSA Regional Office conducts annual reviews of the TXDDS, to include referenced files and this has never been a finding, note of non-compliance, or any other concern reported to the TXDDS by SSA during their annual reviews.

5. We recommend TX-DDS perform a comprehensive review of its procedures for period certifications and ensure the certifications are performed and documentation is maintained that is sufficient to support the wages charged to the Federal award for applicable employees.

State/TXDDS Response:

The TXDDS Disagrees and this is not a policy or guideline requirement. The boxes noted by Grant Thornton suggesting the TXDDS should require employees to check necessary boxes are not applicable to the TXDDS. As explained to the auditors on multiple occasions, by both the TXDDS and our SPA experts in HR and Time/Labor and Leave, this monthly form is used only by certain (identified on the documents) state agencies within HHS. TXDDS is not one of the agency's assigned identified. Further, as directed by the state experts, this form is not to be used by the 100% federally funded DDS program. These boxes are only used by the Department of State Health Services (DSHS), no other department should use these boxes. As pointed out numerous times to the auditors, the monthly time and leave forms/report reflects the department in top left corner. For DDS, the Department ID is "PDDS1". PDDS is identified by Accounting and Budget as only the 100% federal SSA disability program in Texas. Due to this, the state accounting system, CAPPS has been programmed as such to alert users that the TXDDS is a 100% federal program. To further provide affirmation that the TXDDS is in compliance, and that documentation is maintained that supports the wages charged to the Federal award for applicable employees, the TXDDS, like all State DDSs, submit Employee Office Sampling (EOS) weekly to SSA ODD. This report, developed by SSA, provides SSA with required evidence that every DDS employee is working on the 100% federally funded SSA disability program. The TXDDS, like all State DDSs, submits a monthly obligation report (MOR and eMOR) to SSA

monthly. This report provides even further proof of every workload the DDS has worked in that month. To add further assurances and affirmations that documentation is maintained, TXDDS employees must complete a state form, (Form HHS HR 0501, Request and Authorization for Work Schedule Exceptions), which are signed by employees and approved by supervisors. Accordingly, the DDS is in compliance and actually exceeding the requirements in 2 CFR 225, Appendix B subsection h, since Form 501 is used regularly, and supervisors have firsthand knowledge of the work performed by the employee and their work time away from work.

Objective 2

6. We recommend TX-DDS maintain documentation of all factor calculations used to determine indirect cost allocations, including estimate calculations. This documentation should be maintained for the time necessary to support costs claimed for reimbursement on the SSA-4513.

State/TXDDS Response:

Grant Thornton finding, and recommendation are not accurate. The TXDDS is in full compliance and program requirements were met in accordance with 2 CFR 225, Section C. HHSC maintains compliance with its federally approved Public Assistance Cost Allocation Plan (PACAP). All expenses are originally paid for using an estimated factor. When actual statistics are available, the SPA reallocates to actuals. The SPA has not and does not dispose of factor calculations. They are archived in our financial system of records, CAPPs Fin. All samples and documentation were supplied by agreed upon deadlines.

The following details to this objective are offered as evidence to further illustrate the absurdity and unrealistic timelines presented by the Grant Thornton auditors to the state. These details will also show that the auditors were not familiar with what they were asking for or reviewing.

ADDITIONAL DETAILS TO OBJECTIVE 2, #7:

2019:

43 samples for FY19 were originally requested on 1/27/2021 at 3:46PM with a requested due date of 2/3/2021. An email seeking clarification regarding documentation expected was sent that same day at 5:47PM. On 2/2/2021, documentation for the 2 ETV samples was provided. By 2/8/2021, clarification had still not been

received. Working on assumptions of what to provide, payroll expenses broken down to the employee for journals beginning with an 8 were provided for all 15 samples. Auditors did not sample any reallocation journals for "actuals" factors for FY19, thus no calculation sheets were provided. 1 additional sample was added on 2/9/2021 bringing samples requested to 44. Questions from auditor received on 2/26/2021 were responded to on 3/1/2021 plus any additional documentation requested. On 3/3/2021, 20 reallocation journal prints were provided as requested on 2/26/2021. Received 8 questions related to FY19 samples on 3/22/2021 and answers provided 3/23/2021. On 4/20/2021, a request for documentation regarding dept PDDS1 was received. Documentation provided the same day showed the speedchart coding for each PDDS1 speedchart, the combo edits restricting the chartfield combinations used on the PDDS1 speedcharts, and the only fund source, DDSADM, associated with the project IDs on the PDDS1 speedcharts.

2018:

105 samples for FY18 were originally requested on 1/27/2021 at 3:46PM with a requested due date of 2/3/2021. An email seeking clarification regarding documentation expected was sent that same day at 5:47PM. On 2/2/2021, documentation for the 7 ETV samples was provided. By 2/8/2021, clarification had still not been received. Working on assumptions of what to provide, payroll expenses broken down to the employee for journals beginning with an 8 were provided for all 16 samples. 1 additional sample was added on 2/9/2021 bringing samples requested to 106. Calculation files were provided for the projects beginning with Z8 on 2/8/2021. Questions from auditor received on 2/26/2021 were responded to on 3/1/2021 plus any additional documentation requested. On 3/3/2021, 17 reallocation journal prints were provided as requested on 2/26/2021. On 3/19/2021, auditors requested an additional 10 journal prints and all were provided the same day. Received 10 questions related to FY18 samples on 3/22/2021 and answers provided 3/23/2021. On 4/20/2021, a request for documentation regarding dept PDDS1 was received. Documentation provided the same day showed the speedchart coding for each PDDS1 speedchart, the combo edits restricting the chartfield combinations used on the PDDS1 speedcharts, and the only fund

source, DDSADM, associated with the project IDs on the PDDS1 speedcharts.

2017:

74 samples for FY17 were originally requested on 1/27/2021 at 3:46PM with a requested due date of 2/3/2021. An email seeking clarification regarding documentation expected was sent that same day at 5:47PM including a request to provide document numbers for FY17 which were not originally provided. HHSC received the revised FY17 sample on 2/8/2021 which included an additional 5 samples bringing total to 79. Working on assumptions of what to provide, factor calculation sheets for FY17 were provided on 2/8/2021 for those projects beginning with Z7. On 2/9/2021, 2 payroll sample expenses broken down to the employee for journals beginning with an 8 were provided as well as additional factor calculation sheets. Questions from auditor received on 2/26/2021 were responded to on 3/1/2021 plus any additional documentation requested even some that had been previously provided. On 3/3/2021, 20 reallocation journal prints were provided as requested on 2/26/2021. On 3/19/2021, auditors requested an additional 23 journal prints and all were provided the same day. Received 3 questions related to FY17 samples on 3/22/2021 and answers provided 3/23/2021. 4 additional questions related to FY17 samples were received on 3/23/2021 and answers provided on 3/24/2021. On 3/26/2021 during a meeting with auditors, a walkthrough of two ETV samples was provided tracing an ETV line back to its support on another tab of the ETV file. On 4/20/2021, a request for documentation regarding dept PDDS1 was received. Documentation provided the same day showed the speedchart coding for each PDDS1 speedchart, the combo edits restricting the chartfield combinations used on the PDDS1 speedcharts, and the only fund source, DDSADM, associated with the project IDs on the PDDS1 speedcharts.

Objective 3

7. We recommend TX-DDS work with its parent agency, HHSC, to ensure the amount of reimbursement is limited to the appropriate amount (the amount of disbursements) before the draw down occurs.

State/TXDDS Response:

Grant Thornton recommendation is not applicable or accurate. The SPA (HHSC) is in full compliance with POMS, OMB-133, A-87 and Circular A-133 as the SPA draws agree with a CAPPs report drawn daily as expenditures are paid. The HHSC uses General Revenue funds to promptly pay vendors that need to be electronically transferred into the Federal System. Any returns due to SSA have already been accounted for in the HHS system. Delays in returns were directly attributed to incompatible processes used by both SSA and HHSC. For example, SSA uses Fedwire, however, HHSC does not. When HHS inquired about returning funds via wire transfers, HHS was met with delays by SSA in providing wire account information. The TXDDS financial office works daily with the SSA financial team in the Dallas Regional office and has consistently expressed concerns regarding this incompatibility and the challenges it creates. The state has also asked that SSA be more timely in their reconciliation of draws and disbursements.

8. We recommend TX-DDS return to SSA the overdrawn amounts of \$1,558,648 and \$309,111 for FYs 2018 and 2019, respectively.

State/TXDDS Response:

Grant Thornton Finding and recommendation are not accurate. The SPA/HHSC is in full compliance with POMS, OMB-133, A-87 and Circular A-133. Any returns due to SSA have already been accounted for in the HHS system. Delays in returns were directly attributed to incompatible processes used by both SSA and HHSC. For example, SSA uses Fedwire, however, HHSC does not. When HHS inquired about returning funds via wire transfers, HHS was met with delays by SSA in providing wire account information. There are appropriate amounts of disbursements to support these draw downs, resulting in zero amounts being overdrawn or needing to be returned to SSA.

Objective 4

9. Due to the sensitive nature of this objective and recommendation, our response was submitted under separate email communication.

In conclusion, the TXDDS and SPA adamantly dispute both the findings and recommendations associated with this cost audit. We believe this draft report contains inaccurate findings and unnecessary recommendations. Evidence to support our response and position are easily identified throughout this

document. It is also unfathomable that SSA expected the state DDSs to engage in an audit of this magnitude with full knowledge that the entire nation is in the midst of an unprecedented national emergency, making resources to address and respond even less available or ideal. Our nation postponed Congressional hearings, criminal court cases and medical procedures as a result of this national emergency, yet SSA modified standard processes that had years of historical evidence by changing course and conducting a remote audit, when the magnitude of data required face to face interactions at best. The lack of face-to-face interactions and presentations of evidence and explanations undoubtedly influenced this audit. Email questions and follow-up requests by the audit team led to misunderstandings, audit creep, and a distorted perception. TXDDS and the SPA (HHSC) are proud of our proven history to operate impeccable programs that are used as models for other states. As national leaders, we are consistently identifying best practices and implementing change to maintain efficiencies, accuracy and accountability. This audit will not change our superior model of excellence.

Finally, upon review of the OMB Compliance Supplement, 4-96.001-1, we are considering and discussing options available to elevate concerns of this audit engagement, to include the manner and scope conducted.

Sincerely,

Mary Wolfe e-signed

Mary Wolfe
DDS Administrator

c: Wayne Salter, HHSC AES Deputy Executive Commissioner
Trey Wood, HHSC Chief Financial Officer
Julie Beisert-Smith, HHSC AES Associate Commissioner of Finance and
Contract Operation



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