



Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

Audit Report

Costs Claimed by the Michigan
Disability Determination Services

A-55-20-00005 | September 2021



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

September 27, 2021

Dave Ludington
Director
Michigan Disability Determination Services
608 W. Allegan Street, 3rd Floor
Lansing, MI 48933

Dear Mr. Ludington:

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 Michigan Disability Determination Services for the periods October 1, 2016 through September 30, 2017 and October 1, 2017 through September 30, 2018. In addition, Grant Thornton conducted an indirect cost audit for the period October 1, 2015 through September 30, 2016. 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 – Dave Ludington

The Michigan 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 black 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

Elizabeth Hertel, Director, Michigan Department of Health and Human Services

Costs Claimed by the Michigan Disability Determination Services

A-55-20-00005



September 2021

Office of Audit Report Summary

Objective

To (1) evaluate internal controls over the accounting and reporting of administrative costs by the Michigan Disability Determination Services (MI-DDS) for Fiscal Years (FY) 2017 and 2018, as well as indirect costs for FY 2016; (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

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

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 MI-DDS' controls over the accounting and reporting of administrative costs for FYs 2017 and 2018 (and indirect costs for FY 2016), as well as its general security controls, could be strengthened to ensure compliance with applicable criteria.

As of March 31, 2020, Grant Thornton noted that projected administrative costs of \$4,102,521, \$6,418,932, and \$2,457,611 as claimed on the Forms SSA-4513 for FYs 2016, 2017 and 2018, respectively did not meet criteria for allowability. Additionally, cumulative drawdowns exceeded cumulative disbursements for FY 2018 by \$655,561.

Recommendations

Grant Thornton outlined 21 recommendations for the MI-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 MI-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>
MDHHS	Michigan Department of Health and Human Services
MI-DDS	Michigan Disability Determination Services
OIG	Office of the Inspector General
PACAP	Public Assistance Cost Allocation Plan
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
SWCAP	Statewide Cost Allocation Plan
U.S.C.	United States Code

MEMORANDUM

Date: September 24, 2021

To: Gail S. Ennis
Inspector General

From: Grant Thornton LLP

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

We have conducted a performance audit (also referred to as an “audit” herein) on the Michigan Disability Determination Services’ (MI-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, 2017 and 2018 (as well as indirect costs for the year ended September 30, 2016) 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 MI-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 MI-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 MI-DDS’ internal control. Accordingly, we express no such conclusion related to the MI-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, 2017 and 2018 (as well as indirect costs for the year ended September 30, 2016) 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 MI-DDS used to account for the administrative costs it incurred in connection with conducting disability determinations in support of SSA. We interviewed appropriate MI-DDS staff as well as SSA regional office representatives; inspected available written MI-DDS procedures, applicable Federal regulations, the *Social Security Act* (Act), SSA policies and procedures pertaining to the MI-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 MI-DDS' total claimed costs presented on the Form SSA-4513 for each applicable fiscal year (FY). In FYs 2017 and 2018 as of March 31, 2020, the MI-DDS claimed administrative costs totaling approximately \$170 million (\$85,919,635 and \$84,378,099, respectively). As of March 31, 2020, the FY 2016 indirect cost totaled \$4,102,521. 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 Form SSA-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 MI-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

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).

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 MI-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 MI-DDS claims reimbursement for both direct and indirect costs claimed from SSA in relation to its disability programs.

The MI-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 MI-DDS comply with its Program Operations Manual System (POMS).³

The MI-DDS' parent agency is the Michigan Department of Health and Human Services (MDHHS), which provides the MI-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.

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

Our testing disclosed instances where the MI-DDS' internal controls over the accounting and reporting of administrative costs for FYs 2017 and 2018 (and indirect costs for FY 2016) could have been strengthened.

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/>).

Consultative Examinations Provider Verification Checks

For FY 2018, the MI-DDS was unable to provide evidence of System of Award Management (SAM) checks, periodic licensure reviews, or a vendor attestation for 1 of 50 Consultative Examination (CE) provider samples as required by POMS⁴. Additionally, related to a different sample, the support provided indicated that the licensure review was performed after the CE service date. Note that this condition did not result in any unallowable charges being represented within the Form SSA-4513.

The lack of documentation over the review of required CE providers' credentials impacts management's ability to monitor its medical consultants and ensure compliance with POMS criteria for medical consultants who provide services for the MI-DDS.

Consultative Examinations Payments

For FY 2017, the support provided for 1 of 50 CE selections did not agree to the CE costs recorded. The CE invoice and payment history provided show a payment amount of \$205, which did not agree to the \$120 amount recorded for the selected CE sample. Note that this condition did not result in any unallowable charges being represented within the Form SSA-4513.

The MI-DDS' inability to support its recorded transactions increases the risk that amounts requested for reimbursement are unallowable under the terms of 2 C.F.R. part 225. Per 2 C.F.R. part 225, Appendix A Section C, to be allowable under Federal awards, costs must be adequately documented.

Inconsistent Categorization

For FYs 2017 and 2018, incorrect categorization of costs was noted for several sample selections. Specifically, based on testing performed, the following were determined:

- For fiscal year 2017, MI-DDS mis-categorized personnel service cost (PSC) payroll charges as Indirect Costs for 8 of 27 Indirect Cost samples.
- For fiscal year 2017, MI-DDS mis-categorized rent expenses as Personnel Service Costs for 4 of 73 PSC samples.
- For fiscal year 2017, MI-DDS mis-categorized Information technology charges from the Department of Technology, Management and Budget (DTMB) as Personnel Services Costs for 1 of 73 PSC samples.
- For fiscal year 2017, MI-DDS mis-categorized Indirect Costs as All Other Non-personnel Costs for 1 of 5 Non-personnel samples.

⁴ Per POMS DI 39569.300, DDS must conduct license checks for existing medical consultant (MC), psychological consultant (PC), or consultative examination (CE) provider on a rolling basis, including conduct periodic licensure reviews prior to renewal dates to ensure that licenses are active and review the SAM for each MC/PC/CE at least annually.

- For fiscal year 2018, MI-DDS mis-categorized Medical Consultant costs as All Other Non-personnel Costs for 1 of 17 Non-personnel samples.

Note that these conditions did not result in any unallowable charges being represented within the Form SSA-4513. Per 2 C.F.R. part 225, Appendix A Section C, to be allowable under Federal awards, costs must be accorded consistent treatment. The inconsistency in reporting the same type of expense as Personnel Service Costs, Indirect Costs or Non-personnel Costs leads to the inaccuracy of each cost category being over- or understated.

Cost Allocation Step Down Report

For FY 2017, the step down report provided did not agree to the allocation percentage used for 2 of 27 Indirect Cost samples and 2 of 5 Other Non-Personnel Cost samples. The step down report displays the allocations in a linear manner where each initial account is allocated to a final receiver account, and detailed allocation steps and allocation method are displayed. The MI-DDS was not able to support the allocation percentage used to arrive at the allocated amount. Note that this condition did not result in any unallowable charges being represented within the Form SSA-4513.

Per 2 C.F.R. 225, Appendix E Section C, the allocation of indirect costs may require the accumulation of such costs into separate cost groupings which then are allocated individually to benefitted functions by means of a base which best measures the relative degree of benefit.

Although these conditions did not result in any unallowable charges being represented within the Form SSA-4513, similar errors in different scenarios could lead to erroneous charges. As such, these conditions result in an increased risk of unsupported or inappropriate charges being represented within the Form SSA-4513.

Inappropriate Cost Pools

For FY 2017, indirect costs were included in the wrong cost pool for 3 of 27 samples. Specifically based on testing performed, the following were determined:

- Statewide costs were inappropriately included in cost pool 8101.01 (DTMB SVCS - Mainframe & Technology Costs) for 2 samples.
- Information technology expenditures were inappropriately included in cost pool A101.01 (Statewide Costs) for 1 of 27 samples.

Per 2 C.F.R. Part 225 Appendix A, Section F, indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Although these conditions did not result in any unallowable charges being represented within the Form SSA-4513 as indirect costs were allocated using the same allocation method under these cost pools, similar errors in different scenarios could lead to erroneous charges. As such, these conditions result in an increased risk of unsupported or inappropriate charges being represented within the Form SSA-4513.

Time Approval

For FYs 2017 and 2018, the MI-DDS was unable to provide evidence of time verification by the supervisor for 9 of 73 sampled employees and 2 of 73 sampled employees, respectively. Per 2 C.F.R. 225, Appendix A Section C, to be allowable under Federal awards, costs must be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit. Note that this condition did not result in any unallowable charges being represented within the Form SSA-4513.

Approved time records should be maintained and support the hours charged to the program to mitigate the risk of the DDS remitting payment for time that was not authorized or allowable. The MI-DDS could be remitting payment for time that was not authorized or allowable.

Payroll Variances

For FYs 2017 and 2018, the payroll support provided for 3 of 73 PSC selections and 4 of 73 PSC selections, respectively did not agree to the amount recorded. The MI-DDS could not support the variance between the sample amount and the support provided for these payroll samples. Per 2 C.F.R. part 225, Appendix A Section C, to be allowable under Federal awards, costs must be adequately documented.

Although these conditions did not result in any unallowable charges being represented within the Form SSA-4513, similar errors in different scenarios could lead to erroneous charges. As such, these conditions result in an increased risk of unsupported or inappropriate charges being represented within the Form SSA-4513.

Inability to Provide Transactional Details

For FY 2016, the MI-DDS was unable to provide transactional detail to support the Indirect Costs recorded on the FY 2016 SSA-4513. MI-DDS stated that the DDS employee who originally prepared the form was no longer employed by the DDS, and the cost allocations were processed by a third-party service provider. Insufficient records were maintained to re-create balances presented from underlying transactional detail. The MI-DDS did not have the proper controls in place to ensure documentation is maintained at both the aggregate and transactional level to support all costs claimed for reimbursement as reported on the Form SSA-4513.

Per 2 C.F.R. part 225, Appendix A Section C, to be allowable under Federal awards, costs must be adequately documented. The MI-DDS is not deemed to be in compliance with 2 C.F.R. part 225, Appendix A Section C for FY 2016.

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.

Lack of Transactional Details for Indirect Charges

For FY 2016, the MI-DDS was unable to provide transactional detail to support the Indirect Costs recorded on the FY 2016 SSA-4513. MI-DDS stated that the DDS employee who originally prepared the form was no longer employed by the DDS, and the cost allocations were processed by a third-party service provider. Insufficient records were maintained to re-create balances presented from underlying transactional detail.

According to 2 C.F.R. 225 Section C, Basic Guidelines - Factors affecting allowability of costs, provision 1.j, items must be adequately documented to be allowable. The MI-DDS Indirect Costs were not adequately documented or supported in compliance with 2 C.F.R. 225, Section C for FY 2016. Grant Thornton noted an unsupported total of \$4,102,521 for FY 2016 as shown in Table 1 below ("Indirect Costs" line item).

Cost Pool Irregularities

For FYs 2017 and 2018, we noted that the MI-DDS could not provide sufficient evidence to determine whether selected cost pools were beneficial (and therefore allocable) to SSA. These cost pools totaled \$553,603 and \$547,861 of Indirect Costs for FYs 2017 and 2018, respectively and are included in Table 1 ("Indirect Costs" line item).

Additionally, in FY 2018 the MI-DDS utilized three task order/cost pool codes that were not included in the Public Assistance Cost Allocation Plan (PACAP) which documents the cost pools approved for MI-DDS use in FY 2018. These cost pools totaled \$621,808 of Indirect Costs for FY 2018 and are included in Table 1 ("Indirect Costs" line item).

Per 2 C.F.R. 225, Appendix A Section F, Indirect costs are those: Incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. Indirect cost pools should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived.

Duplicate Charges

For FY 2017, duplicate charges were identified in transactional details. Specifically based on testing performed, the following were determined:

- We noted 3 of 73 PSC samples tested where charges for the sampled employees were being directly included in PSC, and also allocated and partially re-included in PSC a second time. As a result, we identified an actual error total of \$1,270 and a projected error total of \$2,284,351 for FY 2017. This projected error is included in Table 1 ("Personnel Service Costs" line item).
- We noted 5 of 27 Indirect Cost samples tested where charges for the sampled employees were both included as a direct charge to the PSC line item and also as allocated payroll costs included in indirect costs. As a result, we identified an actual error total of \$3,071 and a projected error total of \$1,276,159 for FY 2017. This projected error is included in Table 1 ("Indirect costs" line item).
- For 2 of 27 Indirect Cost samples tested, Statewide Cost Allocation Plan (SWCAP) charges allocated to the MDHHS (Parent Agency) for FY 2017 Quarters 1-3 were double

counted. As a result, Indirect Costs claimed on the Form SSA-4513 were overstated. We identified an actual error total of \$824,699 and the same projected error total of \$824,699 for FY 2017. This projected error is included in Table 1 (“Indirect Costs” line item).

Per 2 C.F.R. 225, Appendix A Section C, to be allowable under Federal awards, costs must meet the general criteria.

Nonbeneficial Charges

For FYs 2017 and 2018, the MI-DDS included charges that were not beneficial to SSA. Specifically based on testing performed, the following were determined:

- For FY 2017, desktop/laptop charges and/or desktop services charges were inappropriately included for 2 of 27 Indirect Cost samples. As a result, we noted an actual error total of \$71,307 and a projected error total of \$510,463 for FY 2017. This projected error is included in Table 1 (“Indirect Costs” line item).
- For FY 2018, desktop/laptop charges were inappropriately included for 4 of 18 Indirect Cost samples. As a result, we noted an actual error total of \$81,965 and a projected error total of \$1,005,362 for FY 2018. This projected error is included in Table 1 (“Indirect Costs” line item).
- For FY 2017, desktop and SharePoint storage charges were inappropriately included for 1 of 5 All Other Non-personnel Cost samples. Additionally, we noted that telecommunication costs charged to the MDHHS (parent agency) were inappropriately included for 1 of 5 All Other Non-personnel Cost samples. As a result, we noted an actual error total of \$53,186 and a projected error total of \$721,035 for FY 2017 as noted in Table 1 (“All Other Non-personnel Costs” line item).

Per 2 C.F.R. Part 225 Appendix A, Section F, indirect costs are those: incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefitted, without effort disproportionate to the results achieved. The MI-DDS is not deemed to be in compliance with 2 C.F.R. 225 Appendix A, Section F for FYs 2017 and 2018.

Current Procedural Terminology Codes and Fee Increase

For FY 2018, the CE rate charged was higher than the CE rate shown on the DDS fee schedule for 3 of 50 sample selections. The MI-DDS was able to provide evidence of internal review of this Current Procedural Terminology (CPT) code rate increase but failed to document this rate increase on the fee schedule or provide alternative evidence of Regional Office approval.

Per POMS⁵ DI 39545.600, Section B, DDS responsibilities include: maintain documentation to support the rates of payment it uses, provide documentation and obtain RO approval when fee schedules increase. Additionally, per POMS⁶ DI 39545.625, Section A, each State is required

⁵ SSA, POMS, DI 39545.600 Fee Schedules

⁶ SSA, POMS, DI 39545.625 Developing Fee Schedules

to develop a fee schedule to be used by the DDS for payment of consultative examinations (CEs).

Payments to the CE providers were inconsistent with the fee schedule and exceeded approved rates resulting in a monetary error total of \$140, and a projected error total of \$282,580 for FY 2018 as noted in Table 1 (“Medical Costs” line item).

Consultative Examinations Travel Costs

For FY 2017, the MI-DDS charged an administrative fee for \$1,700 travel costs for 1 of 50 CE sample selections. The MI-DDS was able to provide evidence of internal approval of these travel costs but failed to submit for RO approval. Additionally, these travel costs should be classified under All Other Non-Personnel Costs - Applicant Travel, not under Medical Costs.

Per POMS⁷ DI 39545.600, Section B, DDS responsibilities include: “maintain documentation to support the rates of payment it uses, provide documentation and obtain RO approval when fee schedules increase”. Additionally, per POMS⁸ DI 39506.210, Section D, “medical costs reflect the total costs incurred for the purchase of consultative examinations (CE) and medical evidence of records (MER) for all SSA disability programs (title II, title XVI, and concurrent). Do not report applicant travel in this line total”.

Payments to the CE provider are not allowable because these travel costs are not submitted for RO approval and not reflected on the fee schedule. We noted an actual error total of \$1,700 and a projected error total of \$180,453 for FY 2017 as noted in Table 1 (“Medical Costs” line item). Additionally, travel costs were included in the wrong cost category.

Payroll Variances

For FY 2017, the payroll support provided for 1 of 73 PSC selections did not agree to the amount recorded, and an unsupported amount of \$418 was identified. The MI-DDS could not support the variance between the sample amount and the support provided for this payroll sample. Per 2 C.F.R. part 225, Appendix A Section C, to be allowable under Federal awards, costs must be adequately documented.

Personnel Service Costs claimed on the Form SSA-4513 were overstated resulting in an actual error total of \$418 and a projected error total of \$68,169 for 1 of 73 samples for FY 2017. This projected error is included in Table 1 (“Personnel Service Costs” line item).

⁷ SSA, POMS, DI 39545.600 Fee Schedules

⁸ SSA, POMS, DI 39506.210 Preparation Instructions for Form SSA-4513

Table 1: MI-DDS Projected Unsupported Costs

Line Item	Projected Unsupportable Amounts		
	FY 2016	FY 2017	FY 2018
Personnel Service Costs	N/A	\$ 2,352,520	\$ 0
Medical Costs	N/A	180,453	282,580
Indirect Costs	\$ 4,102,521	3,164,924	2,175,031
All Other Non-personnel Costs	N/A	721,035	0
Total	\$ 4,102,521	\$ 6,418,932	\$ 2,457,611

Objective 3: Reconcile Funds Drawn Down with Claimed Costs

Cash Drawdowns

SSA reimburses MI-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 MI-DDS as reported on the SSA-4513s to the amount of cash drawdowns reported on the Automated Standard Applications for Payments report.

For FY 2018 as of the March 31, 2020 reporting period, the MI-DDS had drawn down a total of \$85,033,660 rather than the amount of disbursements of \$84,378,099, resulting in an overdraw of \$655,561. Corrections had been made by the MI-DDS in August 2020.

The MI-DDS drew down funds in FY 2018 to cover disbursements made for a future period and did not have the proper controls in place to prevent the drawdown of cash exceeding the cash disbursed and claimed on the SSA-4513.

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, MI-DDS 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.

Objective 4: Assess the General Security Controls Environment

Grant Thornton assessed the design and implementation of general security controls as they pertained to the MI-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 \$4,102,521, \$6,418,932, and \$2,457,611 as claimed on the Form SSA-4513 for FYs 2016, 2017, and 2018, respectively, as of March 31, 2020 did not meet criteria for allowability. Additionally, cumulative drawdowns exceeded cumulative disbursements for FY 2018 by \$655,561. We have the following recommendations.

Objective 1

1. We recommend MI-DDS maintain sufficient documentation evidencing the SAM checks and license checks performed for each CE provider in accordance with POMS DI 39569.300.
2. We recommend MI-DDS implement processes and controls which serve to reconcile CE invoices, pay vouchers, and other applicable documentation to confirm that underlying expenses reported on the Form SSA-4513 are appropriate and supported.
3. We recommend MI-DDS provide training to management and staff on how to classify, record and report costs in accordance with 2 C.F.R. 225.
4. We recommend MI-DDS consistently record similar expenses to the appropriate cost category.
5. We recommend MI-DDS should maintain documentation of all factor calculations used to arrive at allocated costs, including estimate calculations.
6. We recommend MI-DDS implement processes and controls to confirm that underlying expenses reported on the Form SSA-4513 are appropriate and supported.
7. We recommend MI-DDS provide training to management and staff on how to classify, record and report indirect costs in accordance with the Public Assistance Cost Allocation Plan (PACAP).
8. We recommend MI-DDS implement processes and controls to ensure that each employee's timesheet is reviewed and approved by the appropriate supervisor.
9. We recommend MI-DDS implement processes and controls to confirm that underlying expenses reported on the Form SSA-4513 are appropriate and supported.
10. We recommend MI-DDS implement processes and controls to ensure that documentation is maintained at both the aggregate and transactional level to support all costs reported on the Form SSA-4513.

Objective 2

11. We recommend MI-DDS should maintain documentation at both the aggregate and transactional level to support all costs reported on the Form SSA-4513.
12. We recommend MI-DDS maintain sufficient documentation to demonstrate appropriateness of cost pools included within Indirect Costs such that it can be readily identified and provided upon inquiry.
13. We recommend the MI-DDS should ensure all cost pools in use are described in the PACAP.

14. We recommend MI-DDS implement processes and controls to confirm the same charges are not double counted and the underlying expenses reported on the Form SSA-4513 are appropriate and supported.
15. We recommend MI-DDS implement processes and controls to confirm that underlying expenses reported on the Form SSA-4513 are appropriate and supported, and only include charges that are beneficial to the DDS.
16. We recommend that timely CPT code and fee updates be made on the fee schedule and submitted for RO approval, so that CPT coding and fees per internal and external documents aligned with approvals in accordance with POMS DI 39545.600.
17. We recommend the MI-DDS use only the CE fees indicated on the approved fee schedule for CE payment in accordance with POMS DI 39545.625.
18. We recommend that timely CPT code and fee updates should be made on the fee schedule and submitted for RO approval, so that CPT coding and fees per internal and external documents aligned with approvals in accordance with POMS DI 39545.600.
19. We recommend MI-DDS ensure costs reported on the Form SSA-4513 are appropriate in accordance with POMS guidance.
20. We recommend MI-DDS implement processes and controls to confirm that underlying expenses reported on the Form SSA-4513 are appropriate and supported.

Objective 3

21. We recommend MI-DDS implement processes and controls to ensure the amount of reimbursement is limited to the appropriate amount (the amount of disbursements) before the draw down occurs.

Objective 4

Due to the sensitive nature of general security controls, we present recommendations for the MI-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 MI-DDS internal control and compliance related to the audit objectives.

MI-DDS' RESPONSE

The full text of the MI-DDS' response is included in Appendix C. The MI-DDS' response to our findings was not subjected to the auditing procedures applied in the audit, and accordingly, we express no opinion on the MI-DDS' response. We evaluated the additional context provided by the MI-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 MI-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 24, 2021

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We obtained sufficient, appropriate evidence to evaluate the performance audit objectives for the Michigan Disability Determination Service (MI-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 MI-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 Chicago Regional Office, MI-DDS, and the Michigan Department of Health and Human Services (Parent Agency) staff to obtain background information.
- Reconciled MI-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) 2016 (indirect cost only), 2017 and 2018.
- Performed procedures to reconcile MI-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) 2016 (indirect cost only), 2017 and 2018.
 - As described in the results section of our report, in some instances we were not able to reconcile the transactional listings to determine that the population of transactions was complete. In those instances, we were prohibited from relying on the data and selecting a sample for testing.

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: MI-DDS Performance Materiality

Materiality Type	FY 2016	FY 2017	FY 2018
Performance Materiality	\$47,000	\$964,000	\$947,000

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 sampled using monetary unit sampling (MUS) and the sampling tool calculated 73 samples for each fiscal year for FY17 and FY18. For FY17, IDEA only selected 72 samples as a result of one high value item of \$1.5M greater than the sampling interval of \$761k. For FY18, the sampling tool sample size is synonymous with the IDEA selected sample size. Other Personnel Service Costs were segregated and sampled using MUS and randomly selected 16 and 17 samples for FY17 and FY18, respectively. The sampling tool sample size is synonymous with the IDEA selected sample size.

Medical Costs

For consultative examinations, the sampling tool calculated 35 and 45 samples for FY17 and FY18 respectively. For medical evidence of records transactions, the sampling tool calculated 17 and 19 samples for FY17 and FY18 respectively. However, we randomly selected 50 consultative examinations and 50 medical evidence of records transactions for each fiscal year. The discrepancies between the sampling tool and the sample selections are due to selecting the recommended sample size of 50 or more.

Indirect Costs

For indirect costs, we used MUS sampling and selected 27 and 18 samples for FY17 and FY18, respectively. When selecting a MUS sample, items larger than the sampling interval may be selected multiple times, which could cause the actual number of items selected to differ from the computed sample size. In this case, the sampling tool generated a sample size of 32 and 21 for FY17 and FY18, while a sample size of 27 and 18 for FY17 and FY18 respectively was selected using manual MUS.

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 5 and 17 samples of positive transactions for FY17 and FY18, respectively. We also randomly selected 7 samples of negative transactions for FY18. Unless otherwise noted, the sampling sample size is synonymous with the IDEA selected sample size. For FY18, the sampling tool generated a sample size of 17 positive transactions and 7 negative transactions, while IDEA selected a sample size of 13 and 4 respectively due to several high value items being selected more than one time.

Appendix B – FORMS SSA-4513

FY2016¹ State Agency Report of Obligations for SSA Disability Programs

Social Security Administration

Form Approved OMB No. 0960-0421

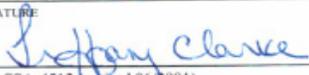
STATE AGENCY REPORT OF OBLIGATIONS FOR SSA DISABILITY PROGRAMS

(See attached Instructions and Paperwork/Privacy Act Notice)

NAME OF AGENCY Michigan Department of Health and Human Services Disability Determination Services		STATE MICHIGAN	
FISCAL YEAR 2016	FOR PERIOD From: 10/01/2015	To: FINAL	
REPORTING ITEMS - ALL TITLES	(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS	(C) TOTAL OBLIGATIONS
1. Personnel Service Costs	\$60,926,074.00	\$0.00	\$60,926,074.00
2. Medical Costs (sum of 2a+2b)	\$16,967,390.00	\$0.00	\$16,967,390.00
a. Consultative (sum of a1-a2-a3)	\$11,694,578.00	\$0.00	\$11,694,578.00
1) Disability Insurance (DI) Claims	\$3,423,344.00	\$0.00	\$3,423,344.00
2) Supplemental Security Income (SSI) Claims	\$5,824,434.00	\$0.00	\$5,824,434.00
3) Concurrent DI/SSI Claims	\$2,446,800.00	\$0.00	\$2,446,800.00
b. Medical Ev (sum of b1-b2-b3)	\$5,272,812.00	\$0.00	\$5,272,812.00
1) Disability Insurance (DI) Claims	\$2,071,818.00	\$0.00	\$2,071,818.00
2) Supplemental Security Income (SSI) Claims	\$2,022,860.00	\$0.00	\$2,022,860.00
3) Concurrent DI/SSI Claims	\$1,178,134.00	\$0.00	\$1,178,134.00
3. Indirect Costs [see attached addendum]	\$4,102,521.00	\$0.00	\$4,102,521.00
4. All Other Nonpersonnel Costs	\$5,556,354.00	\$0.00	\$5,556,354.00
a. Occupancy	\$2,750,383.00	\$0.00	\$2,750,383.00
b. Contracted Costs (exclude EDP)	\$279,688.00	\$0.00	\$279,688.00
c. EDP Maintenance	\$432,543.00	\$0.00	\$432,543.00
d. New EDP Equipment/Upgrades	\$25,806.00	\$0.00	\$25,806.00
e. Equipment Total	\$51,148.00	\$0.00	\$51,148.00
1) Purchases	\$0.00	\$0.00	\$0.00
2) Rental	\$51,148.00	\$0.00	\$51,148.00
f. Communications	\$422,035.00	\$0.00	\$422,035.00
g. Applicant Travel	\$104,060.00	\$0.00	\$104,060.00
h. DDS Travel	\$48,148.00	\$0.00	\$48,148.00
i. Supplies	\$260,333.00	\$0.00	\$260,333.00
j. Miscellaneous	\$1,182,210.00	\$0.00	\$1,182,210.00
5. Total: (sum of 1 thru 4)	\$87,552,339.00	\$0.00	\$87,552,339.00
6. Cumulative Obligational Authorization			\$87,895,724.00

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 	TITLE Accty mgr	DATE 3/13/2020
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Form SSA-4513 (revised 06/2001)

¹ The FY 2016 Form SSA-4513 signed on March 13, 2020 reflects the final close out amount of the spending for the award year. There were no changes since March 13, 2020; therefore, this is the latest Form SSA-4513 available for FY 2016 funds.

FY2017² 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 Michigan Department of Health and Human Services Disability Determination Services		STATE MICHIGAN	
FISCAL YEAR 2017	FOR PERIOD From: 10/01/2016	To: Final	
REPORTING ITEMS - ALL TITLES		(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS
1. Personnel Service Costs		\$61,471,373.06	\$0.00
2. Medical Costs <i>(sum of 2a+2b)</i>		\$13,380,249.01	\$0.00
a. Consultative <i>(sum of a1+a2+a3)</i>		\$9,017,028.12	\$0.00
1) Disability Insurance (DI) Claims		\$2,717,412.26	\$0.00
2) Supplemental Security Income (SSI) Claims		\$4,455,330.08	\$0.00
3) Concurrent DI/SSI Claims		\$1,844,285.78	\$0.00
b. Medical Evl <i>(sum of b1+b2+b3)</i>		\$4,363,220.89	\$0.00
1) Disability Insurance (DI) Claims		\$1,772,708.90	\$0.00
2) Supplemental Security Income (SSI) Claims		\$1,580,020.50	\$0.00
3) Concurrent DI/SSI Claims		\$1,010,491.49	\$0.00
3. Indirect Costs <i>[see attached addendum]</i>		\$8,716,300.25	\$0.00
4. All Other Nonpersonnel Costs		\$2,351,712.73	\$0.00
a. Occupancy		\$679,771.82	\$0.00
b. Contracted Costs (exclude EDP)		\$32,771.19	\$0.00
c. EDP Maintenance		\$895,808.08	\$0.00
d. New EDP Equipment/Upgrades		\$0.00	\$0.00
e. Equipment Total		\$26,654.20	\$0.00
1) Purchases		\$0.00	\$0.00
2) Rental		\$26,654.20	\$0.00
f. Communications		\$202,811.17	\$0.00
g. Applicant Travel		\$72,529.64	\$0.00
h. DDS Travel		\$41,064.72	\$0.00
i. Supplies		\$98,981.09	\$0.00
j. Miscellaneous		\$301,320.82	\$0.00
5. Total: <i>(sum of 1 thru 4)</i>		\$85,919,635.05	\$0.00
6. Cumulative Obligational Authorization			\$85,919,635.05

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>Tiffany Clarke</i>	TITLE Accounting Manager	DATE 11/17/2020
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Form SSA-4513 (revised 06/2001)

² MI-DDS was unable to support the originally submitted FY 2017 Form SSA-4513 signed on March 13, 2020 with transactional detail. As a result, the MI-DDS submitted a revised Form SSA-4513 in November 2020 which was accepted by SSA. The FY 2017 Form SSA-4513 signed on November 17, 2020 reflects the final close out amount of the spending for the award year as of March 31, 2020.

FY2018 State Agency Report of Obligations for SSA Disability Programs

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 Michigan Department of Health and Human Services Disability Determination Services REVISED		STATE MICHIGAN		
FISCAL YEAR 2018	FOR PERIOD From: 10/01/2017		To: 03/31/2020	
REPORTING ITEMS - ALL TITLES	(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS	(C) TOTAL OBLIGATIONS	
1. Personnel Service Costs	\$57,308,299.81	\$0.00	\$57,308,299.81	
2. Medical Costs <i>(sum of 2a+2b)</i>	\$16,007,480.65	\$1,048,490.85	\$17,055,971.50	
a. Consultative Examinations <i>(sum of a1+a2+a3)</i>	\$11,375,692.30	\$151,071.15	\$11,526,763.45	
1) Disability Insurance (DI) Claims	\$4,526,949.26	\$41,803.28	\$4,568,752.54	
2) Supplemental Security Income (SSI) Claims	\$5,622,217.27	\$81,441.92	\$5,703,659.19	
3) Concurrent DI/SSI Claims	\$1,226,525.77	\$27,825.95	\$1,254,351.72	
b. Medical Evidence of Record <i>(sum of b1+b2+b3)</i>	\$4,631,788.35	\$897,419.70	\$5,529,208.05	
1) Disability Insurance (DI) Claims	\$2,311,328.10	\$323,817.85	\$2,635,145.95	
2) Supplemental Security Income (SSI) Claims	\$1,748,844.80	\$395,036.85	\$2,143,881.65	
3) Concurrent DI/SSI Claims	\$571,615.45	\$178,565.00	\$750,180.45	
3. Indirect Costs <i>[see attached addendum]</i>	\$6,112,091.15	\$0.00	\$6,112,091.15	
4. All Other Nonpersonnel Costs	\$4,950,227.56	\$22,939.50	\$4,973,167.06	
a. Occupancy	\$2,799,274.36	\$0.00	\$2,799,274.36	
b. Contracted Costs (exclude EDP)	\$101,017.30	\$0.00	\$101,017.30	
c. EDP Maintenance	\$139,711.75	\$0.00	\$139,711.75	
d. New EDP Equipment/Upgrades	\$0.00	\$0.00	\$0.00	
e. Equipment Total	\$104,599.25	\$0.00	\$104,599.25	
1) Purchases	\$1,168.26	\$0.00	\$1,168.26	
2) Rental	\$103,430.99	\$0.00	\$103,430.99	
f. Communications	\$552,043.62	\$0.00	\$552,043.62	
g. Applicant Travel	\$90,122.20	\$22,939.50	\$113,061.70	
h. DDS Travel	\$36,421.90	\$0.00	\$36,421.90	
i. Supplies	\$280,685.90	\$0.00	\$280,685.90	
j. Miscellaneous	\$846,351.28		\$846,351.28	
5. Total: <i>(sum of 1 thru 4)</i>	\$84,378,099.17	\$1,071,430.35	\$85,449,529.52	
6. Cumulative Obligational Authorization			\$86,422,801.00	
7. SSA-871 Attached?	YES <input type="checkbox"/>	NO <input type="checkbox"/>	X <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 <i>Tiffany Clarke</i>	TITLE <i>Accounting Manager</i>	DATE <i>04/29/2020</i>
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Form SSA-4513 (revised 06/2001)

Appendix C – MICHIGAN DDS' RESPONSE



STATE OF MICHIGAN

GRETCHEN WHITMER
GOVERNOR

DEPARTMENT OF HEALTH AND HUMAN SERVICES
LANSING

ELIZABETH HERTEL
DIRECTOR

Date: August 25, 2021

To: Michelle L. Anderson, Assistant Inspector General for Audit

From: State of Michigan Department of Health and Human Services
Michigan Disability Determination Services

Subject: Michigan Disability Determination Services Administrative Costs
A-55-20-00005

This document is in response to the Michigan Disability Determination Services Administrative Costs Audit for periods of October 1, 2015, through September 30, 2016 (Indirect Costs Only), October 1, 2016, through September 30, 2017, and October 1, 2017, through September 30, 2018. For reference purposes the paragraph number under each section correlates to the paragraph number of the respective section on the audit report.

Results

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

Consultative Examinations Provider Verification Checks

Paragraph 1: DDS and MDHHS disagrees with part 1. The X-ray vendor is a sub-contract. DDS and MDHHS agrees with part 2. DDS has implemented a process to control the licensing verification. This process was completed in approximately 2019.

Consultative Examinations Payments

Paragraph 1: Disagree. MSE=\$120. This one had a charge for a CE Exam and one ancillary charge for IQ Testing. Therefore, the total would not match the total of the CE Exam for \$120.

Inconsistent Categorization

Paragraph 1 Bullet 1: MDHHS and DDS agrees with this condition. The revised FY17 SSA-4513 was partially reported by using Account/Dept name. At the time of the revised SSA-4513 the expenditures in question were thought to be Indirect Costs.

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www.michigan.gov/mdhhs • 517-241-3740

Paragraph 1 Bullet 2: MDHHS and DDS agrees with this condition. These samples were classified on the SSA-4513 based on the name of the Account/Dept. At the time of the revised filing, it was believed these expenditures were related to payroll.

Paragraph 1 Bullet 3: MDHHS and DDS agrees with this condition. These samples were classified on the SSA-4513 based on the name of the Account/Dept. At the time of the revised filing, it was believed these expenditures were related to payroll.

Paragraph 1 Bullet 4: MDHHS and DDS agree with this condition.

Paragraph 1 Bullet 5: MDHHS and DDS agree with this condition. At the time of filing the SSA-4513 the department object and program does not agree with the expenditure being classified as PSC. However, looking at the activity this is for a DDS Physician and would qualify as a medical consultant under the PSC line.

Cost Allocation Step Down Report

Paragraph 1: MDHHS and DDS disagrees with this condition. MDHHS and DDS were not notified of discrepancies for Samples 3 and 5 for FY17.

Inappropriate Cost Pools

Paragraph 1: MDHHS and DDS agrees with the condition for 8101.01. SWCAP charges were used as support and resulted in being reported under Cap Code 8101.01. However, MAIN did not have the ability to charge costs for SWCAP directly to 8072.0103 via accounting entries. MDHHS and DDS agrees that Cap A101.01 is inappropriate for DIT staff.

Time Approval

Paragraph 1: MDHHS and DDS agrees with this condition. DDS will establish a control for ongoing instances of supervisor approval on timesheets.

Payroll Variances

Paragraph 1: (FY 2017): This is from our previous system, and we would need more data to see why they don't match. It's hard to get info from a system we don't use anymore, so we will agree with the findings.

Paragraph 1: (FY 2018): MDHHS and DDS would disagree on this. Please see pages 3-13 of the DDS Final Audit attachment and it will give information on these ones and why we have a difference.

Inability to Provide Transactional Details

Paragraph 1: MDHHS and DDS agrees with this finding. NOTE: MDHHS submitted a revised SSA-4513 dated 1/6/21. This revision is not accepted by the Chicago Regional Office at this time. The revision is not accepted based on possible unallowable cost pools. Further discussions will be needed to determine the allowability of the selected cost pools.

A meeting with SSA was held on July 19, 2021, to discuss closing out FY 2016. On July 22, 2021, the Chicago Regional Office stated they would use the SSA-4513 signed and dated on July 30, 2018, resulting in a balance owed to Michigan of \$3,102,988. A meeting was held with SSA on August 18, 2021, to further discuss the FY16 close out. The parent agency was provided a deadline of August 24, 2021, to provide additional information to the Chicago Regional Office for further review and consideration

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

Lack of Transactional Details for Indirect Charges

See Objective 1, Inability to Provide Transactional Details section of this response.

Cost Pool Irregularities

Paragraph 1: (FY 2017): MDHHS and DDS disagrees with this finding. MDHHS and DDS did not receive communication and/or support for the \$553,603 until 6/3/21 from the Chicago Regional Office. Further communication with the Regional Office and research into the cost pools to determine if DDS did benefit from these charges will need to take place. Additional information will be provided to SSA.

Paragraph 1: (FY 2018): MDHHS and DDS partially disagrees with this finding. MDHHS and DDS disagree with the unallowable cost pools. MDHHS and DDS did not receive communication and/or support for the \$1,169,668.37 until 6/3/21 from the Chicago Regional Office. A FY18 Unallowable comments tab has been included for MDHHS explanation of the unallowable cost pools. MDHHS and DDS does agree that cost pools C102, C212, and C213 were not listed in the FY18 PACAP. The costs for these pools were allocated properly. NOTE: C212 and C213 were listed in the PACAP in FY19. Additional information will be provided to SSA.

Duplicate Charges

Paragraph 1 Bullet 1: MDHHS and DDS agrees with this condition. These sample items were reported under PSC based on appropriation 14100/AC1 0521 as a direct charge AND as part of a non-direct CAP code during the allocation process.

Paragraph 1 Bullet 2: MDHHS and DDS agrees with the condition. 5 of 27 indirect costs were categorized on the SSA-4513 as a direct charge using appropriation 14100/AC1 0521 AND partially reported under Indirect based on the expenditures using a CAP code. MDHHS and DDS agrees that 2 of 27 indirect cost samples were reported twice on the SSA-4513. FY17 Q1-Q3 SWCAP Cap Code was reported as Indirect. In FY17 Q4 a correcting entry was entered in MAIN that moved the same amount to a non-SWCAP Cap code.

Paragraph 1 Bullet 3: MDHHS and DDS agrees with the condition. 5 of 27 indirect costs were categorized on the SSA-4513 as a direct charge using appropriation 14100/AC1 0521 AND partially reported under Indirect based on the expenditures using a CAP code. MDHHS and DDS agrees that 2 of 27 indirect cost samples were reported twice on the SSA-4513. FY17 Q1-Q3 SWCAP Cap Code was reported as Indirect. In FY17 Q4 a correcting entry was entered in MAIN that moved the same amount to a non-SWCAP Cap code.

Nonbeneficial Charges

Paragraph 1 Bullet 1: MDHHS and DDS disagree with this condition. Included with this response will be the invoice for sample 15d. MDHHS and DDS agrees with this condition. MDHHS and DDS understands that SSA supplies computers for DDS staff. However, the approved FY17 PACAP used a methodology on technology costs that allocated by Hours across DHHS. The PACAP was changed in FY19 to exclude DDS. Identified during this response is that it appears the projected cost of \$510,463 is a result of counting the same projected cost.

Paragraph 1 Bullet 2: MDHHS and DDS agrees with this condition. MDHHS and DDS understands that SSA supplies computers for DDS staff. However, the approved FY18 PACAP used a methodology on technology costs that allocated by Hours across DHHS. The PACAP was changed in FY19 to exclude DDS.

Paragraph 1 Bullet 3: MDHHS and DDS agrees with this condition. MDHHS and DDS agrees that these items should be reported under Indirect instead of Non-PSC. MDHHS and DDS understands that SSA supplies computers for DDS staff. However, the approved FY17 PACAP used a methodology on technology costs that allocated by Headcount across DHHS. MDHHS and DDS agrees that the Telecom items were allocated under an incorrect CAP code (8101.01) according to the PACAP for FY17.

Current Procedural Terminology Codes and Fee Increase

Paragraph 1: DDS and MDHHS agrees with the condition.

Consultative Examinations Travel Costs

Paragraph 1: MDHHS and DDS agree to this condition. MDHHS and DDS agree that CE travel costs should be reported under Other Non-PSC Applicant travel. The transaction in question uses coding that identifies this payment as a CE cost and not travel. MDHHS would need to review the support to determine proper classification. MDHHS and DDS agrees that the invoice was not submitted to RO for approval.

Payroll Variances

Paragraph 1: This is from our previous system, and we would need more data to see why they don't match. It's hard to get info from a system we don't use anymore, so we will agree with the findings.

Objective 3: Reconcile Funds Drawn Down with Claimed Costs

Cash Drawdowns

Paragraph 1: MDHHS and DDS agrees with this condition.

Objective 4: Assess the General Security Controls Environment

Physical Access Reviews

Paragraph 1: MDHHS and DDS agrees with this condition.

System Access Reviews

Paragraph 1: MDHHS and DDS agrees with this condition.

Conclusions and Recommendations

Objective 1

2. Recommend changing to "We recommend MI-DDS and the parent agency"

3. Recommend changing to "We recommend SSA"
4. Recommend changing to "We recommend the parent agency"
5. Recommend changing to "We recommend the parent agency"
6. Recommend changing to "We recommend MI-DDS and the parent agency"
7. Recommend changing to "We recommend SSA"
9. Recommend changing to "We recommend MI-DDS and the parent agency"
10. Recommend changing to "We recommend MI-DDS and the parent agency"

Objective 2

11. Recommend changing to "We recommend MI-DDS and the parent agency"
12. Recommend changing to "We recommend the parent agency"
13. Recommend changing to "We recommend the parent agency"
14. Recommend changing to "We recommend MI-DDS and the parent agency"
15. Recommend changing to "We recommend MI-DDS and the parent agency"
19. Recommend changing to "We recommend the parent agency"
20. Recommend changing to "We recommend MI-DDS and the parent agency"

Objective 3

21. Recommend changing to "We recommend the parent agency"

Management Notes to the Response

For fiscal year 2018, the employee's pay rate is outside the minimum/maximum range for their position for 5 of 73 sampled employees. Specifically based on testing performed, the following were determined:

1. One sampled employee's pay rate is more than the maximum range for his/her position.

2. Four sampled employees' pay rates are less than the minimum range for their position.

Additional information will be provided to SSA.

If you wish to discuss the response document, please contact Tim Hoover at HooverT2@michigan.gov.

Steve Bendele

Steven Bendele
Michigan Department of Health and Human Services
Bureau of Finance & Accounting
Chief Financial Officer

Janelle Richardson

Janelle Richardson
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WOC State Bureau Administrator



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