



## SOCIAL SECURITY

### **MEMORANDUM**

Date: July 7, 2005

Refer To:

To: Carl L. Rabun  
Regional Commissioner  
Seattle

From: Inspector General

Subject: Administrative Costs Claimed by the Alaska Disability Determination Services  
(A-09-05-15025)

The attached final report presents the results of our audit. Our objectives were to evaluate the Alaska Disability Determination Services' (AK-DDS) internal controls over the accounting and reporting of administrative costs, determine whether costs claimed by the AK-DDS were allowable and funds were properly drawn, and assess limited areas of the general security controls environment.

Please provide within 60 days a corrective action plan that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.



Patrick P. O'Carroll, Jr.

Attachment

cc:

Greg O'Claray, Commissioner, Alaska Department of Labor and Workforce Development

Sandra Kelley, Chief Administrator, Alaska Disability Determination Services

Lenore R. Carlson

Jeff Hild

Candace Skurnik

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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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

**July 2005**

**A-09-05-15025**

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**AUDIT REPORT**

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## **Mission**

**We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.**

## **Authority**

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

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

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

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

## **Vision**

**By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.**

# *Executive Summary*

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## **OBJECTIVE**

The objectives of our audit were to (1) evaluate the Alaska Disability Determination Services' (AK-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed by the AK-DDS were allowable and funds were properly drawn, and (3) assess limited areas of the general security controls environment.

## **BACKGROUND**

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction, in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources. SSA reimburses the DDS for 100 percent of allowable expenditures.

## **RESULTS OF REVIEW**

Generally, AK-DDS had adequate controls over the accounting and reporting of administrative costs. Also, AK-DDS had adequate controls over its general security controls environment. However, we estimate that AK-DDS could have saved up to about \$1.3 million in medical costs for Fiscal Years (FY) 2001 through 2003 had a fee schedule been established. In addition, AK-DDS claimed \$177,092 of unallowable costs for FYs 2001 through 2003. This occurred because AK-DDS improperly paid for missed consultative examinations and Medicaid expenditures that did not benefit SSA's programs. Furthermore, AK-DDS charged \$21,821 in medical and all other nonpersonnel costs to the incorrect FY.

## **RECOMMENDATIONS**

We recommend that SSA (1) ensure AK-DDS establishes a fee schedule for medical services, (2) work with AK-DDS to evaluate the reasonableness of its payment rates, (3) determine whether it was necessary for AK-DDS to pay medical providers for \$120,920 in missed consultative examinations, (4) instruct the Alaska Division of Vocational Rehabilitation (AK-DVR) to refund \$56,172 in unallowable costs for the Medicaid program, and (5) instruct AK-DVR to implement procedures to ensure that expenditures are reported in the proper FY.

## **SSA COMMENTS**

SSA agreed with four of our five recommendations. SSA disagreed with our recommendation to recover \$56,172 in unallowable costs for disability determinations performed on behalf of the Medicaid program. SSA believed it generally benefited from the reimbursement arrangement and should not request a refund because (1) under the reimbursable services agreement (RSA), AK-DVR used a \$75,000 salary when the actual average adjudicator salary was \$64,000 and (2) the non-Federal workload did not require the services of a full-time adjudicator. SSA believed these factors would offset any potential finding of unallowable costs. Finally, SSA noted that since AK-DVR only showed personnel costs on its quarterly reports, it would instruct AK-DVR to provide a breakdown of the Medicaid costs to reflect personnel, indirect, medical, and other costs. See Appendix D for the text of SSA's comments.

## **STATE AGENCY COMMENTS**

The Alaska Department of Labor and Workforce Development (AK-DOLWD) agreed with four of our five recommendations. AK-DOLWD disagreed with our recommendation to recover \$56,172 in unallowable costs for disability determinations performed on behalf of the Medicaid program. AK-DOLWD stated that it should have used an average salary of \$64,000 for an adjudicator rather than the highest salary of \$75,000. In addition, AK-DOLWD stated that it had incorrectly included nonpersonnel costs with the Medicaid billings for personnel costs and did not charge the full amount of State and departmental indirect costs during our audit period. See Appendix E for the text of AK-DOLWD's comments.

## **OIG RESPONSE**

The RSA, as applied during our audit period, stated the annual salary for one adjudicator would be allocated to the Medicaid program. During FYs 2001 through 2003, AK-DVR charged Medicaid costs based on an estimated salary of \$75,000 per year. In addition, we found no evidence that nonpersonnel costs were included with personnel costs or had otherwise been charged to the Medicaid program. Finally, the information supporting AK-DOLWD's comment that it did not charge the full amount of State and departmental indirect costs was not made available to us during our audit. Therefore, we believe SSA should evaluate the sufficiency of this information to determine whether it should request a refund of any unallowable costs for the Medicaid program. We are pleased that SSA is taking corrective action to ensure AK-DVR provides a breakdown of all Medicaid costs in the future.

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# *Introduction*

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## **OBJECTIVE**

The objectives of our audit were to (1) evaluate the Alaska Disability Determination Services' (AK-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed by the AK-DDS were allowable and funds were properly drawn, and (3) assess limited areas of the general security controls environment.

## **BACKGROUND**

The Disability Insurance program was established in 1954 under Title II of the Social Security Act (Act). The Disability Insurance program provides benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted the Supplemental Security Income program under Title XVI of the Act. The Supplemental Security Income program provides benefits to financially needy individuals who are aged, blind, or disabled.

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the Disability Insurance and Supplemental Security Income programs. Disability determinations under both Disability Insurance and Supplemental Security Income are performed by disability determination services (DDS) in each State or other responsible jurisdiction, in accordance with Federal regulations.<sup>1</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system to pay for program expenditures. Funds drawn down must comply with Federal regulations<sup>2</sup> and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act of 1990.<sup>3</sup> An advance or reimbursement for costs under the program must comply with Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each

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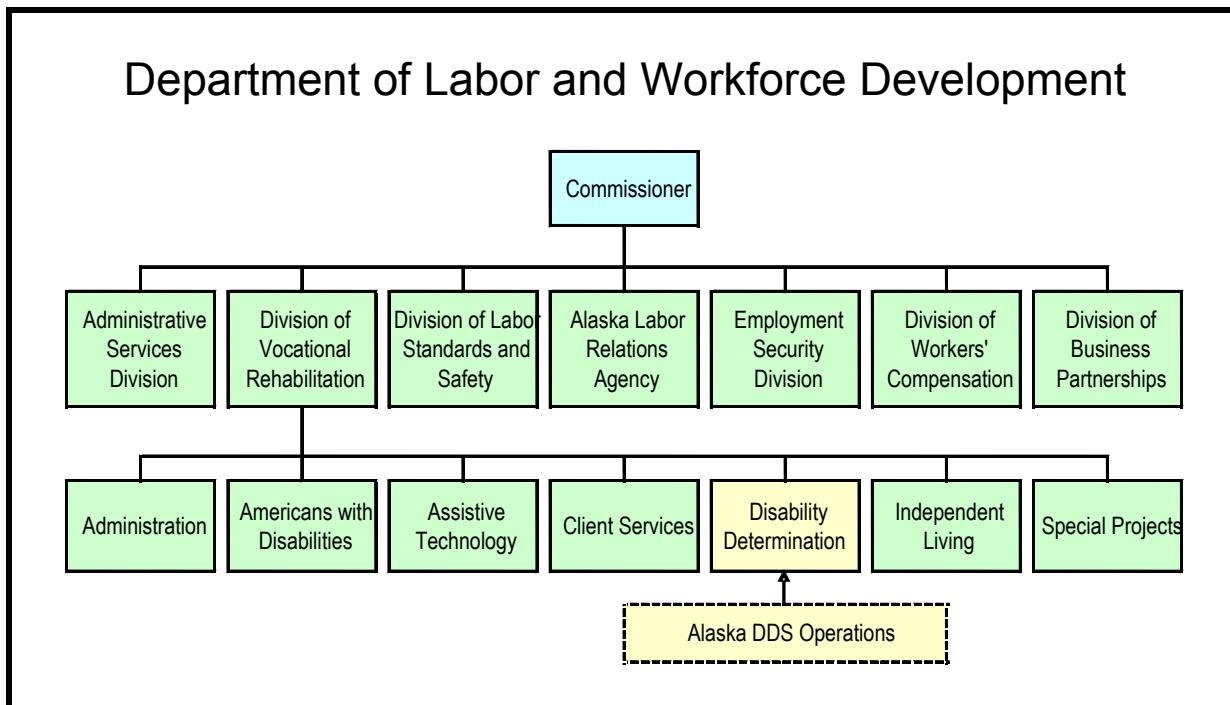
<sup>1</sup> 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

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

<sup>3</sup> Pub. L. No. 101-453; 31 U.S.C. § 6501.

quarter of the fiscal year (FY), each DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and unliquidated obligations.

AK-DDS is a component within the Alaska Division of Vocational Rehabilitation (AK-DVR). AK-DVR is a division within the Alaska Department of Labor and Workforce Development (AK-DOLWD). For FYs 2001 through 2003, AK-DDS employed about 29 employees and claimed total disbursements of \$11.95 million. The following chart provides an overview of the organizational structure of AK-DDS.



# *Results of Review*

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Generally, AK-DDS had adequate controls over the accounting and reporting of administrative costs. Also, AK-DDS had adequate controls over its general security controls environment. However, we estimate that AK-DDS could have saved up to about \$1.3 million in medical costs for FYs 2001 through 2003 had a fee schedule been established. In addition, AK-DDS claimed \$177,092 of unallowable costs for FYs 2001 through 2003. This occurred because AK-DDS improperly paid for missed consultative examinations (CE) and Medicaid expenditures that did not benefit SSA's programs. Furthermore, AK-DDS charged \$21,821 in medical and all other nonpersonnel costs to the incorrect FY.

## **MEDICAL FEE SCHEDULE**

AK-DDS did not establish a fee schedule to determine the maximum payment rates for medical services. Because of the limited number of medical providers in the State, AK-DVR believed a fee schedule was not necessary. In addition, AK-DDS believed a fee schedule could reduce the availability of medical providers. Without a fee schedule, SSA and AK-DDS may be unable to ensure the payment rates for medical services are consistently applied. If payment rates were limited to the highest rate paid by Federal or other agencies in the State for the same or similar types of service, we estimate that AK-DDS could have saved up to about \$1.3 million in medical costs for FYs 2001 through 2003.

SSA's procedures state that the DDS will use a fee schedule to reimburse medical providers for their services. Authorized payments represent the lower of (1) the provider's usual and customary charge or (2) the maximum allowable charge under the fee schedule. The DDS must submit to the SSA Regional Office a copy of the fee schedule or any changes to an existing fee schedule.<sup>4</sup> The DDS must also review its records annually with the SSA Regional Office to determine whether the fee schedule is adequate and cost-effective.<sup>5</sup>

Federal regulations require that each State determine the payment rates for medical or other services necessary to make disability determinations. The rates may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar types of service. The State must maintain documentation to support the payment rates used.<sup>6</sup>

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<sup>4</sup> Program Operations Manual System (POMS), section DI 39545.210.

<sup>5</sup> POMS, section DI 39545.410.

<sup>6</sup> 20 C.F.R. §§ 404.1624 and 416.1024.

Although AK-DDS paid the usual and customary rates to its medical providers, this did not alleviate the need to establish a fee schedule to determine the maximum payment rates and ensure they were reasonable. In May 2004, the SSA Regional Office conducted an on-site review of DDS operations in Alaska. Based on the results of its review, the Regional Office recommended that AK-DDS consider establishing a fee schedule and rely on other agencies, such as AK-DVR and Medicare, for payment caps.

During our review, we were unable to obtain medical fee schedules from other State agencies because these schedules were classified as proprietary information. For comparison purposes, we matched the rates Medicare paid with the fees AK-DDS paid for its medical services. As depicted in the table below, AK-DDS paid \$2,831,304 for 12,469 medical services during FYs 2001 through 2003. However, using the applicable Medicare rates, the maximum payments for these medical services were limited to \$1,511,765. Therefore, if a fee schedule had been established and payment rates were limited to the highest allowable rates, we estimate that AK-DDS could have saved up to \$1,319,539 in medical costs for FYs 2001 through 2003.

FY	Medical Services	Actual Payments	Maximum Payments	Potential Cost Savings
2001	4,866	\$1,021,831	\$578,793	\$443,038
2002	4,594	1,045,800	550,077	495,723
2003	3,009	763,673	382,895	380,778
Total	12,469	\$2,831,304	\$1,511,765	\$1,319,539

## MISSED CONSULTATIVE EXAMINATIONS

AK-DDS incorrectly paid fees for missed CE appointments. Although such fees are ineligible for reimbursement, SSA's Office of Disability Determinations<sup>7</sup> may authorize an exemption to its no-pay policy for missed CEs. However, we found the SSA Regional Office did not obtain the exemption as required. As a result, SSA reimbursed AK-DVR for \$120,920 of unallowable costs for FYs 2001 through 2003.

In response to a prior audit,<sup>8</sup> SSA adopted a no-pay policy for missed CE appointments. In April 2000, SSA clarified its no-pay policy and stated that, on a case-by-case basis, the DDS may request an exemption to recruit or retain medical providers.<sup>9</sup> To obtain an exemption, the DDS should work with the SSA Regional Office to determine the payments for missed CE appointments. After an agreement is reached, the Regional Office should submit the request, along with supporting documentation, to the Office of Disability Determinations for consideration.

<sup>7</sup> Formerly SSA's Office of Disability.

<sup>8</sup> Department of Health and Human Services, Office of Inspector General, *Payments Under the Disability Determination Program for Medical Appointments Made by Claimants of Disability Insurance and Supplemental Security Income Benefits (A-01-87-02004)*, December 1987.

<sup>9</sup> SSA, Office of Disability, DDS Administrators' Letter No. 536, April 25, 2000.

In December 2002, AK-DDS requested an exemption to the no-pay policy for missed CE appointments. Nevertheless, we found no evidence to indicate that (1) the SSA Regional Office had submitted a request for exemption to its no-pay policy or (2) the Office of Disability Determinations had approved such an exemption for AK-DDS. For FYs 2001 through 2003, we identified 778 payments representing \$120,920 for missed CE appointments. The following table provides a breakdown of these payments.

FY	Number of Claimants	Missed CE Appointments	Unallowable Costs
2001	108	119	\$15,306
2002	364	426	65,850
2003	199	233	39,764
Total	671	778	\$120,920

We encourage SSA to determine whether it was necessary for AK-DDS to pay medical providers for missed CE appointments. If it was not necessary to pay these fees, SSA should instruct AK-DVR to refund \$120,920 in unallowable costs. Otherwise, SSA should obtain approval from the Office of Disability Determinations to pay fees for missed CE appointments.

## **EXPENDITURES FOR MEDICAID PROGRAM**

AK-DVR incorrectly charged expenditures for the Medicaid program to SSA's programs. This occurred because AK-DVR did not properly allocate all other nonpersonnel costs to the benefiting programs. Since these costs benefited the Medicaid program, they should not have been charged to SSA's programs. As a result, SSA reimbursed AK-DVR for \$56,172 in unallowable costs for FYs 2001 through 2003.

SSA's procedures authorize the Agency to provide States with funding for all expenditures, direct or indirect, necessary to make disability determinations. Generally, any expenditures incurred for SSA's disability determination process are deemed essential and may be charged to the Agency.<sup>10</sup>

AK-DDS performs a number of disability determinations for the Medicaid program. Under a reimbursable services agreement (RSA), AK-DVR allocates costs incurred in making disability determinations from AK-DDS to the Medicaid program. Our review of RSAs disclosed that personnel, medical, and indirect costs were properly allocated to the Medicaid program. However, except for applicant travel costs, all other nonpersonnel costs were not allocated to the Medicaid program.

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<sup>10</sup> POMS, section DI 39506.001.

For FYs 2001 through 2003, AK-DDS performed 18,404 disability determinations, of which 17,232 were SSA disability claims and 1,172 were Medicaid claims. During this period, AK-DVR charged \$851,643 in all other nonpersonnel costs (excluding applicant travel costs) to SSA's programs. As depicted in the table below, we determined that \$56,172 of all other nonpersonnel costs benefited the Medicaid program. Therefore, AK-DVR should refund these costs to SSA.

FY	Medicaid Claims	Percentage of Total Claims	Nonpersonnel Costs <sup>11</sup>	Unallowable Costs
2001	381	7.368%	\$386,641	\$28,488
2002	377	5.631%	251,123	14,141
2003	414	6.332%	213,879	13,543
Total	1,172		\$851,643	\$56,172

## INCORRECT FISCAL YEAR PAYMENTS

AK-DDS charged payments to the incorrect FYs, although the costs were otherwise acceptable for reimbursement by SSA. Because of clerical errors, AK-DVR and AK-DDS did not ensure the purchase orders for goods and services were properly billed to the correct FY. As a result, AK-DVR incorrectly reported \$21,821 in administrative costs for FYs 2001 through 2003.

Federal law states that "The balance of an appropriation or fund limited for obligation to a definite period is available only for expenditures properly incurred during that period . . . The appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law."<sup>12</sup>

AK-DDS generates purchase orders to establish valid obligations for goods and services ordered. For FYs 2001 through 2003, we reviewed 150 invoices for medical costs (50 items from each FY) and 150 invoices for all other nonpersonnel costs (50 items from each FY). Of this amount, we found that AK-DDS had charged 20 invoices (6.7 percent) to the incorrect FY, resulting in \$21,821 of misreported costs. The following table provides a breakdown of these payments.

FY	Medical Costs		Nonpersonnel Costs		Unallowable Costs	
	Number	Amount	Number	Amount	Number	Amount
2001	3	\$1,240	6	\$16,083	9	\$17,323
2002	5	3,001	4	1,089	9	4,090
2003	0	0	2	408	2	408
Total	8	\$4,241	12	\$17,580	20	\$21,821

<sup>11</sup> Less applicant travel costs.

<sup>12</sup> 31 U.S.C. § 1502(a).

Improper reporting of funds between FYs prevents SSA from accurately monitoring the status of AK-DDS' expenditures and unexpended appropriations. Therefore, for FYs 2001 through 2003, AK-DVR should review the expenditures claimed on the Form SSA-4513 and reclassify expenditures as appropriate. AK-DVR should also implement procedures to prevent future occurrences of similar problems.

# *Conclusions and Recommendations*

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Our review of administrative costs disclosed that AK-DDS could have saved up to about \$1.3 million in medical costs for FYs 2001 through 2003 had a fee schedule been established. In addition, we found that AK-DDS claimed \$177,092 of unallowable costs for FYs 2001 through 2003. This occurred because AK-DDS improperly paid for missed CEs and Medicaid expenditures that did not benefit SSA's programs. We also found that AK-DDS charged \$21,821 in medical and all other nonpersonnel costs to the incorrect FY.

We recommend that SSA:

1. Ensure AK-DDS establishes a medical fee schedule and submits a copy to the SSA Regional Office.
2. Work with AK-DDS to evaluate the reasonableness of its fee schedule and ensure the payment rates are adequate to obtain medical or other services necessary for disability determinations.
3. Determine whether it was necessary for AK-DDS to pay medical providers for missed CE appointments. If such expenditures were not necessary, instruct AK-DVR to refund \$120,920 in unallowable costs for FYs 2001 through 2003. Otherwise, obtain approval from the Office of Disability Determinations to pay fees for missed CE appointments.
4. Instruct AK-DVR to refund \$56,172 in unallowable costs for disability determinations performed on behalf of the Medicaid program during FYs 2001 through 2003.
5. Instruct AK-DVR to (1) implement procedures to ensure that expenditures are reported in the proper FY and (2) review the Form SSA-4513 for FYs 2001 through 2003 and reclassify expenditures as appropriate.

## **SSA COMMENTS**

SSA agreed with four of our five recommendations. SSA disagreed with our recommendation to recover \$56,172 in unallowable costs for disability determinations performed on behalf of the Medicaid program. SSA believed it generally benefited from the reimbursement arrangement and should not request a refund because (1) under the RSA, AK-DVR used a \$75,000 salary when the actual average adjudicator salary was \$64,000 and (2) the non-Federal workload did not require the services of a full-time adjudicator. SSA believed these factors would offset any potential finding of unallowable costs. Finally, SSA noted that since AK-DVR only showed personnel

costs on its quarterly reports, it would instruct AK-DVR to provide a breakdown of the Medicaid costs to reflect personnel, indirect, medical, and other costs. See Appendix D for the text of SSA's comments.

## **STATE AGENCY COMMENTS**

AK-DOLWD agreed with four of our five recommendations. AK-DOLWD disagreed with our recommendation to recover \$56,172 in unallowable costs for disability determinations performed on behalf of the Medicaid program. AK-DOLWD stated that it should have used an average salary of \$64,000 for an adjudicator rather than the highest salary of \$75,000. In addition, AK-DOLWD stated that it had incorrectly included nonpersonnel costs with the Medicaid billings for personnel costs and did not charge the full amount of State and departmental indirect costs during our audit period. See Appendix E for the text of AK-DOLWD's comments.

## **OIG RESPONSE**

The RSA, as applied during our audit period, stated the annual salary for one adjudicator would be allocated to the Medicaid program. During FYs 2001 through 2003, AK-DVR charged Medicaid costs based on an estimated salary of \$75,000 per year. In addition, we found no evidence that nonpersonnel costs were included with personnel costs or had otherwise been charged to the Medicaid program. Finally, the information supporting AK-DOLWD's comment that it did not charge the full amount of State and departmental indirect costs was not made available to us during our audit. Therefore, we believe SSA should evaluate the sufficiency of this information to determine whether it should request a refund of any unallowable costs for the Medicaid program. We are pleased that SSA is taking corrective action to ensure AK-DVR provides a breakdown of all Medicaid costs in the future.

# **Appendices**

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## **Appendix A**

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### **Acronyms**

Act	Social Security Act
AK-DDS	Alaska Disability Determination Services
AK-DOLWD	Alaska Department of Labor and Workforce Development
AK-DVR	Alaska Division of Vocational Rehabilitation
CE	Consultative Examination
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
POMS	Program Operations Manual System
RSA	Reimbursable Services Agreement
SSA	Social Security Administration
Treasury	Department of the Treasury
U.S.C.	United States Code

# **Scope and Sampling Methodology**

## **SCOPE**

We reviewed the administrative costs reported by the Alaska Disability Determination Services (AK-DDS) on its Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, for Fiscal Years (FY) 2001 through 2003. For the items tested, we reviewed AK-DDS' compliance with applicable laws and regulations, as well as the Social Security Administration's (SSA) policies and procedures, over the allowability of administrative costs and draw down of Federal funds.

To accomplish our objectives, we:

- Reviewed Office of Management and Budget Circular A-87, Code of Federal Regulations, United States Code, SSA's Program Operations Manual System, and AK-DDS' Indirect Cost Proposal;
- Reviewed AK-DDS' policies and procedures related to personnel, medical, indirect, and all other nonpersonnel costs;
- Interviewed employees from SSA, AK-DDS, Alaska Division of Vocational Rehabilitation (AK-DVR), and Alaska Department of Labor and Workforce Development (AK-DOLWD);
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures;
- Examined the administrative costs incurred and claimed by AK-DDS for personnel, medical, indirect, and all other nonpersonnel costs during FYs 2001 through 2003;
- Selected a random sample of personnel, medical, and all other nonpersonnel costs; and
- Reconciled the accounting records to the administrative costs reported by AK-DDS on its Form SSA-4513 for FYs 2001 through 2003.

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

We performed audit work at AK-DDS in Anchorage, Alaska; AK-DVR and AK-DOLWD in Juneau, Alaska; and SSA Regional Office in Seattle, Washington. Field work was

conducted between July and November 2004. We conducted our audit in accordance with generally accepted government auditing standards.

## **SAMPLING METHODOLOGY**

Our sampling methodology included the four general areas of costs as reported on Form SSA-4513: (1) personnel, (2) medical, (3) indirect, and (4) all other nonpersonnel costs. We obtained data extracts from AK-DOLWD for FYs 2001 through 2003 to use in statistical sampling. After selecting and reviewing the randomly selected samples, we did not identify errors that we felt warranted statistical projection.

### **Personnel Costs**

We reviewed 31 personnel transactions from 1 pay period in FY 2003. In addition, we reviewed the transactions from the same pay period for the seven medical consultants hired by AK-DDS. We tested payroll records to ensure AK-DDS accurately paid its employees and adequately supported these payments.

### **Medical Costs**

We reviewed 150 medical cost items (50 items from each FY) using a stratified random sample. We distributed the sample items between medical evidence of records and consultative examinations based on the proportional distribution of the total medical costs for each year.

### **Indirect Costs**

AK-DDS indirect costs were computed by applying a Federally approved rate to a cost base. This methodology was approved by the Department of Labor, which is the Federal agency responsible for approving indirect costs for AK-DOLWD. We reviewed the indirect cost calculations for FYs 2001 through 2003 to ensure the correct rate was applied.

### **All Other Nonpersonnel Costs**

We reviewed 150 all other nonpersonnel costs items (50 items from each FY) using a stratified random sample. Before selecting our sample, we sorted the transactions into the following categories: (1) transportation, (2) per diem, (3) conference/training, (4) applicant travel, (5) other travel costs, (6) professional services, (7) communication, (8) service agreements, (9) postal charges, (10) freight and delivery, (11) advertising, (12) supplies, (13) office equipment, (14) machinery and equipment, (15) information technology equipment and software, (16) other current expenses, and (17) other building expenses. We then distributed the 50 sample items between these categories based on the proportional distribution of all other nonpersonnel costs for each year. We also judgmentally selected two transactions for rental/lease costs for each year.

## **Appendix C**

# **Alaska Disability Determination Services Reported and Allowed Costs**

**Table 1 – Administrative Costs for Fiscal Year (FY) 2001**

Category	Reported Costs	Audit Adjustments <sup>1</sup>	Allowable Costs
Personnel	\$1,537,101	\$0	\$1,537,101
Medical	1,290,558	(15,306)	1,275,252
Indirect	369,726	0	369,726
All Other Nonpersonnel	779,980	(28,488)	751,492
Total	\$3,977,365	(\$43,794)	\$3,933,571

**Table 2 – Administrative Costs for FY 2002**

Category	Reported Costs	Audit Adjustments <sup>1</sup>	Allowable Costs
Personnel	\$1,760,764	\$0	\$1,760,764
Medical	1,486,634	(65,850)	1,420,784
Indirect	412,457	0	412,457
All Other Nonpersonnel	709,321	(14,141)	695,180
Total	\$4,369,176	(\$79,991)	\$4,289,185

**Table 3 – Administrative Costs for FY 2003**

Category	Reported Costs	Audit Adjustments <sup>1</sup>	Allowable Costs
Personnel	\$1,696,120	\$0	\$1,696,120
Medical	1,061,384	(39,764)	1,021,620
Indirect	376,401	0	376,401
All Other Nonpersonnel	469,205	(13,543)	455,662
Total	\$3,603,110	(\$53,307)	\$3,549,803

<sup>1</sup> Total audit adjustments included \$120,920 of fees for missed consultative examinations and \$56,172 of expenditures for the Medicaid program. This amount did not include \$21,821 of medical and all other nonpersonnel costs that had been charged to the incorrect FY, but were otherwise acceptable for reimbursement by SSA.

## ***Appendix D***

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### **SSA Comments**



## SOCIAL SECURITY

### MEMORANDUM

Date: May 27, 2005 Refer To: S2DXG3:D3

To: Inspector General Seattle Regional Office  
Office of the Inspector General

From: Regional Commissioner  
Seattle Region

Subject: Administrative Costs Claimed by the Alaska Disability Determination Services  
(A-09-05-15025) - REPLY

This responds to the draft audit report of administrative costs claimed by the Alaska Disability Determination Services (AK-DDS) (A-09-05-15025). The Office of the Inspector General (OIG) had five recommendations for the Alaska DDS. Each recommendation, with our response, is shown below:

1. Ensure AK-DDS establishes a medical fee schedule and submits a copy to the SSA Regional Office.

We agree with this recommendation and we are working with the AK-DDS to establish a medical fee schedule. The expected completion date is August 30, 2005.

2. Work with AK-DDS to evaluate the reasonableness of its fee schedule and ensure the payment rates are adequate to obtain medical or other services necessary for disability determinations.

We agree with this recommendation and, as stated above, we are working with the AK-DDS to establish and evaluate a medical fee schedule to ensure payment rates are adequate.

3. Determine whether it was necessary for AK-DDS to pay medical providers for missed CE appointments. If such expenditures were not necessary, instruct AK-DVR to refund \$120,920 in unallowable costs for FYs 2001 through 2003. Otherwise, obtain approval from the Office of Disability Determinations to pay fees for missed CE appointments.

We agree with this recommendation and we are working with the AK-DDS and the Office of Disability, Division of Field Disability Operations, Resource Management Branch to obtain approval for the DDS's CE reimbursement guidelines and procedures for missed CE appointments. The expected completion date for this action is June 30, 2005.

4. Instruct AK Division of Vocational Rehabilitation (DVR) to refund \$56,172 in unallowable costs for disability determinations performed on behalf of the Medicaid program during FYs 2001 through 2003.

We disagree with this recommendation. To cover the costs of a non-federal workload processed by the AK-DDS, the AK-DVR was charged \$75,000 plus costs for obtaining medical evidence and applicant travel. The \$75,000 charge represented the estimated annual salary for one DDS adjudicator. While there appears to be a discrepancy, we believe that further analysis of information not considered during the audit would show that SSA generally benefited from the reimbursement arrangement for the years in question and should not request a refund. There are two primary reasons for this belief. First, the average salary for an adjudicator during fiscal years 2001 through 2003 was \$64,000, but the reimbursement formula assumed a \$75,000 salary. Second, the non-federal workload did not necessitate the services of a full-time adjudicator and consequently SSA received additional state-funded adjudicator resources to process federal claims. We believe that these factors, which are both favorable to SSA, would offset any potential finding of unallowable costs.

In the past, the AK-DDS only showed personnel costs on their quarterly reports. More recently, the AK-DVR has changed the reimbursement formula to include reimbursement for a percentage of general expenses. We will instruct the AK-DDS to provide a breakdown of the Medicaid costs to reflect Personnel Costs, Indirect Costs, Medical Costs and Other Costs on Form SSA-4513.

5. Instruct AK-DVR to (1) implement procedures to ensure that expenditures are reported in the proper FY and (2) review the Form SSA-4513 for FYs 2001 through 2003 and reclassify expenditures as appropriate.

We agree with this recommendation and will instruct the AK-DVR to implement procedures to report expenditures in the proper FY and review Form SSA-4513 for fiscal years 2001 through 2003 and reclassify expenditures as appropriate.

If you have any questions regarding this audit, please contact, Shelly Beach, Program Expert, in the Center for Disability at [shelly.beach@ssa.gov](mailto:shelly.beach@ssa.gov), by telephone at 206-615-2137, or Robert Iseminger, Disability Program Administrator at [robert.iseminger@ssa.gov](mailto:robert.iseminger@ssa.gov), by telephone at 206-615-2680.

/s/ Carl L. Rabun

cc: Sandra Kelley, DDS Administrator  
Office of Disability Programs, RMB

## Appendix E

### State Agency Comments

# STATE OF ALASKA

Department Of Labor and Workforce Development

FRANK H. MURKOWSKI, GOVERNOR

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## OFFICE OF THE COMMISSIONER

May 17, 2005

Patrick P. O'Carroll, Jr.  
Inspector General  
Social Security Administration  
1221 Nevin Avenue  
Richmond CA 94801

Dear Mr. O'Carroll:

The Alaska Department of Labor and Workforce Development and the Alaska Disability Determination Services (DDS) are pleased to respond to the audit findings as reported in your draft report dated April 27, 2005. Our responses are presented in the order outlined in the audit report.

**1. We recommend that SSA ensure AK-DDS establish a medical fee schedule and submit a copy to the SSA Regional Office.**

- The Alaska Division of Vocational Rehabilitation (DVR), the DDS parent agency uses a "usual and customary" medical cost reimbursement policy. DDS follows the parent agency policy while ensuring that fees paid are reasonable and appropriate. DVR and DDS will work with the Seattle Regional SSA Office to formalize DDS policy, and develop a procedural method to document the rates of payment used by the AK-DDS. The AK-DDS Professional Relations Officer will contact all vendors used by the DDS to establish usual and customary charges for the services provided, then compare their charges with the Medicare fee schedule. If the fee charged is above the Medicare payment rate, further justification will be provided. For example, if the amount is above the Medicare fee schedule but within the range charged by other providers within the same community for similar services; or if it cannot be compared due to lack of competition based on community size or limited number of specialists within the service area. A description of factors considered when assessing whether to pay a provider's usual and customary fees will be included.
- On Page 2 of the draft report it stated, "We found that Medicare paid the highest rate among Federal or other agencies in the state." During an April 26, 2005 teleconference between the department, the SSA Regional Office, and your staff, it was learned that the only benchmark used for comparison was Medicare. It is therefore misrepresentative to state that

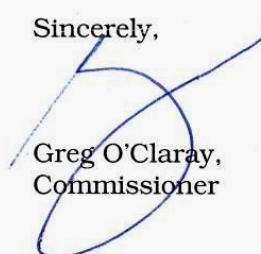
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Medicare was found to pay the highest fee when in fact no other comparison was made. The OIG auditors also stated that they were aware that Medicare did not pay as highly in comparison to other agencies in Alaska as is their experience in other states. The report, as written, misconstrues the facts. To cite an Alaska-specific example: The State of Alaska public retiree medical plan reimburses at 90% of reasonable and customary medical charges.

- We also believe consideration of supply and demand is very important. The Alaska State Medical Association has supplied data that shows Alaska has from 17% to 30% fewer physicians than the national average. Only six states have fewer physicians per capita than Alaska. It has also been reported that physicians are not accepting Medicare payment rates ("Shingle Shortage?" *Anchorage Daily News*, 9/3/2002). Consideration of a fee schedule needs to be weighed against the possibility that scarce medical sources will choose not to accept a reduced fee.
- 2. *We recommend that SSA work with AK-DDS to evaluate the reasonableness of its fee schedule and ensure that payment rates are adequate to obtain medical or other services necessary for disability determinations.***
- The AK-DDS will continue to review and evaluate the reasonableness of fees charged by medical providers. We will monitor prevailing community rates and will negotiate with medical vendors when fees are outside the normal range. The AK-DDS does not use medical providers for consultative examinations if requested fees are above the normal range.
  - The AK-DDS will continue to work with the SSA Regional Office to develop a plan to substantiate that the usual and customary reimbursement policy does not result in payments higher than those paid by comparable federal and state agencies. The AK-DDS, in cooperation with the SSA Regional Office, will develop a method to document current fee payments and will institute a procedure to maintain the appropriate documentation.
- 3. *We recommend that SSA determine whether it was necessary for AK-DDS to pay medical providers for missed CE appointments. If such expenditures were not necessary, instruct AK-DVR to refund \$120,920 in unallowable costs for FYs 2001 through 2003. Otherwise, obtain approval from the Office of Disability Determinations to pay fees for missed CE appointments.***
- The AK-DDS pays for missed appointments in accordance with our parent agency policy. The AK-DDS has made a formal request for exemption from the no-show payment policy. We are in the process of providing additional information to satisfy ODD of the need for the exemption.

- The limited supply of physicians willing to do exams for the DDS leads to the need to pay for no-shows in certain situations in order to maintain a reasonable panel of consultative exam physicians.
- 4. We recommend that SSA instruct AK-DVR to refund \$56,172 in unallowable costs for disability determinations performed on behalf of the Medicaid program during FYs 2001 through 2003.**
- In FY2001, 2002 and 2003, DVR/DDS collected \$75,000, plus an average of \$20,500 in indirect costs, each year from the Medicaid program for Medicaid disability determinations. The \$75,000 represents the highest amount paid to a DDS Adjudicator. During these three years, the average annual cost for an Adjudicator was approximately \$64,000. DVR/DDS included non-personnel charges in the billings but failed to document them separately from personnel costs. The net effect over the three-year period is that the Medicaid program was charged an additional \$16,800, while SSA was charged less (see enclosed spreadsheet).
  - In addition, during these three years, DVR/DDS didn't charge the full department and state indirect rate to SSA, resulting in an \$86,300 net savings to SSA.
- 5. We recommend that SSA instruct AK-DDS to (1) determine whether expenditures claimed on the Form SSA-4513 for FYs 2001 through 2003 were reported in the proper FY and reclassify expenditures as appropriate and (2) implement procedures to prevent future occurrences of similar problems.**
- DVR/DDS will amend SSA-4513's to reflect correct reporting of expenditures identified from the review with incorrect FY postings. Staff has been instructed on proper FY classifications.

Sincerely,



Greg O'Claray,  
Commissioner

Attachment

cc: Gale Sinnott, Director, Division of Vocational Rehabilitation  
Sandra Kelley, Chief, DDS, Division of Vocational Rehabilitation

**Department of Labor & Workforce Development**  
**Division of Vocational Rehabilitation - Disability Determination Services**  
**Medicaid RSA stand in Costs for July 1, 2000 through June 30, 2003**

	SFY 01	SFY 02	SFY 03	Total 3 years
Costs charged to the RSA:				
Personal services charged on RSA	75,400	75,400	76,300	
Indirect charged on RSA	21,100	21,100	19,700	
Total PS and indirect charged on the RSA	<u>96,500</u>	<u>96,500</u>	<u>96,000</u>	289,000
Costs that could have been charged on the RSA, but were covered by DDS federal funds:				
DDS average adjudicator salary	64,800	64,200	61,100	
Indirect applied on average salary	18,144	17,976	15,275	
Nonpersonnel costs	<u>14,871</u>	<u>8,419</u>	<u>7,368</u>	
Estimated total that could have been charged	<u>97,815</u>	<u>90,595</u>	<u>83,743</u>	272,153
RSA charged more, SSA charged less than allowed				<u>16,847</u>
Additional stand in costs that could have been charged to DDS Federal Funding				
Indirect not charged	23,768	29,099	33,420	86,287
Total Amount Undercharged to Social Security Federal Funding				<u>103,134</u>

filename: Fiscal/Federal audit review/dds audit stand in costs ffy01 thru ffy03

	FY01	FY02	FY03	Total 3 years
Total approved indirect rate	29.80%	29.92%	27.32%	
Billed rate	28.00%	28.00%	25.00%	
Unbilled indirect rate	1.80%	1.92%	2.32%	
PS base - DDS	1,320,451	1,515,579	1,440,515	
Unbilled amount	23,768	29,099	33,420	86,287
Total positions DDS	26	29	29	
RSA position	1	1	1	
Percent of total	3.8462%	3.4483%	3.4483%	
Nonpersonnel costs	386,641	244,152	213,663	
RSA nonpersonnel cost share	14,871	8,419	7,368	30,658

## ***Appendix F***

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# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

James J. Klein, Director, San Francisco Audit Division, (510) 970-1739

Jack H. Trudel, Audit Manager, (510) 970-1733

### ***Acknowledgments***

In addition to those named above:

Wilfred P.K. Wong, Auditor

Stephen Flaherty, Auditor

Brennan Kraje, Statistician

Kimberly Beauchamp, Writer-Editor

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