



SOCIAL SECURITY

MEMORANDUM

Date: October 23, 2002

Refer To:

To: Michael W. Gochowski
Regional Commissioner

From: Assistant Inspector General
for Audit

Subject: Audit of the Administrative Costs Claimed by the Kansas Disability Determination Services (A-07-02-22003)

The attached final report presents the results of our audit. Our objectives were to evaluate the Kansas Disability Determination Services' internal controls over the accounting and reporting of administrative costs, determine whether costs claimed were allowable and properly allocated and funds were properly drawn, and assess the electronic data processing general controls environment.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me at (410) 965-9700.

Steven L. Schaeffer

Attachment

cc:
Connie Wold
Cheryl Ritter
Lenore Carlson
Anthony DiNoto

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**AUDIT OF THE ADMINISTRATIVE
COSTS CLAIMED BY THE
KANSAS DISABILITY
DETERMINATION SERVICES**

October 2002

A-07-02-22003

AUDIT REPORT



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

OBJECTIVES

The objectives of our audit were to (1) evaluate the Kansas Disability Determination Services' (KS-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed were allowable and properly allocated and funds were properly drawn, and (3) assess the electronic data processing general 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 according to Federal regulations. In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase consultative medical examinations to supplement evidence obtained from the claimants' physicians or other treating sources. SSA pays the DDS for 100 percent of allowable expenditures.

RESULTS OF REVIEW

Our review of administrative costs claimed by KS-DDS disclosed that obligations reported to SSA were overstated by \$5,674,737. The overstated obligations were caused by (1) incorrect indirect cost allocations, (2) excessive consultative examination (CE) payments, (3) inappropriate non-SSA work cost charges, and (4) inaccurate other nonpersonnel costs. In addition, we identified \$1,106,542 in costs that KS-DDS claimed for reimbursement in the incorrect fiscal year.

We estimate that SSA will realize about \$6.1 million in savings over the next 5 years as a result of resolving the indirect cost findings disclosed in this report. Our review also disclosed that internal control improvements were needed in the areas of cash management, segregation of duties, and computer access.

RECOMMENDATIONS AND AGENCY COMMENTS

We recommend that SSA recover the \$5,674,737 in unallowable costs resulting from the overstated obligations and instruct KS-DDS to improve internal controls over the reporting of fiscal year payments, cash management, segregation of duties, and computer access. In response to our draft report, SSA agreed with most of our recommendations. However, SSA did not fully agree with our recommendations related to incorrect reporting of fiscal year expenditures and excess CE costs. See Appendix E for the full text of SSA's comments to our report, including the KS-DDS' response.

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Acronyms

Act	Social Security Act
ASAP	Automated Standard Application for Payments
CAP	Cost Allocation Plan
CE	Consultative Examination
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
DDS	Disability Determination Services
DI	Disability Insurance
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FTE	Full-Time Equivalents
FY	Fiscal Year
GAO	General Accounting Office
HHS	Department of Health and Human Services
IT	Information Technology
IWS/LAN	Intelligent Workstation/Local Area Network
KRS	Kansas Rehabilitation Services
KS-DDS	Kansas Disability Determination Services Administration
KS-SRS	Kansas Department of Social and Rehabilitation Services
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
POMS	Program Operations Manual System
SSA	Social Security Administration
SSH	Systems Security Handbook
SSI	Supplemental Security Income
Treasury	Department of the Treasury

Introduction

OBJECTIVES

The objectives of our audit were to (1) evaluate the Kansas Disability Determination Services' (KS-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed were allowable and properly allocated and funds were properly drawn, and (3) assess the electronic data processing general controls environment.

BACKGROUND

The Disability Insurance (DI) program was established in 1954 under title II of the Social Security Act (Act). The program provides a benefit to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program was created as a result of the Social Security Amendments of 1972 with an effective date of January 1, 1974. SSI (title XVI of the Act) provides a nationally uniform program of income to financially needy individuals who are aged, blind, and/or disabled.

The Social Security Administration (SSA) is primarily responsible for implementing policies governing 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) in each State according to Federal regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase such consultative medical examinations as x-rays and laboratory tests to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA pays the DDS for 100 percent of allowable expenditures. Each year, SSA approves a DDS budget. Once approved, the DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments (ASAP) system. Cash drawn from the Treasury to pay for program expenditures is to be drawn according to Federal regulations and in accordance with intergovernmental agreements entered into by Treasury and the States under the authority of the Cash Management Improvement Act (CMIA).^{2,3} At the end of each fiscal quarter, each DDS submits to SSA a State Agency Report of Obligations for SSA

¹ 42 USC § 421; 20 CFR part 404, subpart Q, and part 416, subpart J.

² 31 C.F.R. Part 205.

³ Pub. L. No. 101-453.

Disability Programs (Form SSA-4513) to account for program disbursements and unliquidated obligations.

KS-DDS is a component of the Kansas Department of Social and Rehabilitation Services (KS-SRS), Kansas Rehabilitation Services (KRS). Indirect costs are allocated according to the KS-SRS Cost Allocation Plan, which is approved by Department of Health and Human Services (HHS) on behalf of the Federal Government.

SCOPE AND METHODOLOGY

We reviewed the administrative costs KS-DDS reported on its Form SSA-4513 for FYs 1998 through 2000. However, one of our findings (indirect costs) affected the costs claimed in FYs 2001 and 2002. Therefore, we expanded the audit period to fully develop this finding. For the periods reviewed, we obtained evidence to evaluate recorded financial transactions in terms of their allowability under Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and appropriateness, as defined by SSA's Program Operations Manual System (POMS).

We also:

- Reviewed applicable Federal regulations, pertinent parts of the POMS, DI 39500, *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by KS-DDS and the draw down of SSA funds covered by the CMIA.
- Reviewed work performed by Deloitte and Touche, Certified Public Accountants, as part of the Kansas single audit. Because of the limited scope of the single audit work performed at KS-DDS, we did not rely on the single audit work.
- Interviewed staff at KS-DDS, KS-SRS, KRS, and SSA Region VII Center for Disability.
- Reviewed State policies and procedures related to personnel, medical services, and all other nonpersonnel costs.
- Reviewed the Memorandum of Understanding (MOU) between SSA and the KS-SRS for non-SSA work.
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities.
- Reviewed the reconciliation of official State accounting records to the administrative costs reported by KS-DDS on the Form SSA-4513 for Fiscal Years (FY) 1998 through 2000.

- Examined the administrative expenditures (personnel, medical service, and all other nonpersonnel costs) incurred and claimed by KS-DDS for FYs 1998 through 2000 on the Form SSA-4513. We used statistical sampling to select documents to test for support of the medical service and all other nonpersonnel costs (see Appendix A).
- Examined the indirect costs claimed by KS-DDS for FYs 1998 through 2002 (first 2 quarters) and the corresponding KS-SRS Cost Allocation Plans (CAP).
- Compared the amount of SSA funds drawn for support of program operations to the allowable expenditures reported on the Form SSA-4513.
- Discussed indirect costs issues with the HHS Division of Cost Allocation, Kansas City, Missouri.

We performed work in Topeka, Kansas, at the KS-DDS, KS-SRS, and KRS offices and the SSA Regional Office in Kansas City, Missouri. We conducted field work from October 2001 through May 2002. The audit was conducted in accordance with generally accepted government auditing standards.

Results of Review

Our review of administrative costs claimed by KS-DDS disclosed that obligations reported to SSA were overstated by \$3,499,969 for the period October 1998 through September 2000 because of (1) incorrect indirect cost allocations, (2) excessive consultative examination (CE) payments, (3) inappropriate non-SSA work cost charges, and (4) inaccurate other nonpersonnel costs. We also found \$2,174,768 was overstated during the period October 2000 through March 2002 because the DDS continued to use incorrect indirect cost allocations. In addition, we identified payments of \$1,106,542⁴ reported on the Form SSA-4513 in the incorrect FY. Furthermore, funds were not drawn in accordance with Federal regulations, duties were not segregated in the timekeeping function, and access controls needed to be strengthened.

We estimate that SSA will realize about \$6.1 million in savings over the next 5 years as a result of resolving the indirect cost findings disclosed in this report.⁵ The total costs claimed, recommended audit adjustments, and allowable obligations are presented in Appendix B.

INDIRECT COSTS

For the period October 1997 through March 2002, KS-DDS claimed \$4,923,606 in unallowable indirect costs. The unallowable costs occurred because KS-SRS did not allocate KRS Central Office and Administration Division costs to all benefiting components. In addition, we were unable to determine whether \$435,052 in information technology (IT) costs were acceptable because KS-DDS did not allocate IT costs according to the approved CAPs. A summary of the audit issues and cost adjustments is presented in Appendix C.

⁴ We also identified FY 2000 indirect costs of \$47,291 that were claimed on the FY 1999 Form SSA-4513. This cost was accounted for in the indirect costs section of this report so it is not included as part of this finding.

⁵ We estimate the annualized cost disallowance for FY 2002 to be significantly larger FY 2001, the last complete year we reviewed. Therefore, we estimate that future yearly savings will be at least as much as the unallowable costs identified for FY 2001. Based on a straight-line estimation technique, SSA will realize \$6.1 million (\$1.22 million multiplied by 5 years) in savings for FYs 2003 through 2007.

FY	Unallowable Indirect Costs
1998	\$896,907
1999	887,422
2000	964,509
2001	1,227,645
2002 (Through March)	947,123
Total	\$4,923,606

Indirect costs are charged to KS-DDS based on the KS-SRS CAP. Annually, HHS reviews, negotiates, and approves the KS-SRS CAP. For FY 2001, SSA's Office of Disability reported that KS-DDS had the second highest indirect cost rate in the Nation.

FY	KS-DDS INDIRECT COSTS RATE ⁶	NATIONAL DDS AVERAGE INDIRECT COSTS RATE
2001	27.5 Percent	12.2 Percent

KRS CENTRAL OFFICE COSTS

KRS has six divisions in Topeka, Kansas: (1) Rehabilitation Services Administration Office, (2) Services for the Blind and Visually Impaired, (3) Commission for the Deaf and Hard of Hearing, (4) Client Assistance Program, (5) Career Development Centers, and (6) KS-DDS. KRS also has field offices in counties throughout Kansas that perform rehabilitation services.

KRS's Rehabilitation Services Administration Office (referred to as Central Office) provides the following services: (1) policy review and oversight; (2) general management assistance; (3) supervision of program administrators; (4) budgeting and fiscal management and assistance; (5) contract development, review, and processing; (6) position management review and processing; and (7) human resource management, review and oversight. According to KS-SRS staff, these services are provided to the five KRS operating divisions listed above.

Our audit disclosed that the allocation of KRS Central Office costs violated OMB Circular A-87 because it excluded Full-Time Equivalents (FTE) of benefiting divisions, specifically the Client Assistance Program and KRS field offices. According to KS-SRS, the Client Assistance Program was excluded from the indirect cost allocation because its budget would not support indirect cost charges. OMB Circular A-87 states that costs should be treated consistently among the various Federal awards and between Federal and non-Federal awards/activities. Therefore, the Client Assistance Program should receive an allocation of the KRS Central Office costs.

According to KS-SRS staff, the KRS field offices were excluded from the indirect cost allocation because the field offices did not receive the same level of services from the KRS Central Office as the divisions that were allocated costs and did not report to the

⁶ Indirect cost rates were calculated by dividing the DDS indirect costs by DDS personnel costs.

KRS Central Office. We found that the KRS field offices should be included in the allocation of KRS Central Office costs for the following reasons.

- KRS field offices received services from the KRS Central Office, including policy review and oversight.
- The KRS Central Office reported field office activities to the U.S. Department of Education, Rehabilitation Services Administration. To fulfill this reporting responsibility, the KRS Central Office must be involved in KRS field office activities.
- KRS' mission is to work with State residents with disabilities to achieve their goals for employment and independence. With the exception of KS-DDS, all KRS divisions, including the field offices, work together to achieve this mission. KRS' mission is further indication that the KRS Central Office provides services to the divisions achieving its mission, including the KRS field offices.

The FTE count KS-SRS used to allocate KRS Central Office costs resulted in KS-DDS receiving an inequitable allocation of indirect costs. Specifically, the allocation methodology violates OMB Circular A-87 because it does not allocate costs to the KRS field offices and the Client Assistance Program even though both activities benefit from the Central Office. OMB Circular A-87 states "...there needs to be a process whereby central service costs can be identified and assigned to benefited activities on a reasonable and consistent basis. The central service cost allocation plan provides that process...."

We calculated the KRS Central Office costs chargeable to the KS-DDS based on the inclusion of all divisions that received services from KRS Central Office, including the Client Assistance Program and the KRS field offices. For consistency, we used management FTEs⁷ within each division for our calculation. This calculation disclosed that KS-DDS was allocated \$4,302,318 in excessive costs for the period October 1, 1997 through March 31, 2002.

KS-SRS ADMINISTRATION DIVISION

KS-SRS' Administration Division provides leadership and support to KS-SRS. The Administration Division consists of the following components: Office of the Secretary, Human Resources, Legal Services, and Operations. KS-SRS allocates Administration Division costs based on FTE count, time study, or expenditure. We identified an inaccurate allocation of Administration Division costs related to State medical institutions and could not express an opinion on the allocation of costs related to IT.

⁷ KS-SRS sometimes allocated KRS Central Office costs based on the divisions' management FTEs and in other cases based on all FTEs in the division. For consistency, the costs should be allocated to all divisions in the same manner. We used management FTEs to allocate the KRS Central Office costs.

State Medical Institutions

The Administration Division costs include those related to executive services, human resources, and budgeting. The KS-SRS CAP states that these costs should be allocated based on FTEs. We found that KS-SRS allocated these costs to 4,022 of its 6,521 FTEs and excluded 2,499 FTEs assigned to the KS-SRS State medical institutions (Kansas Neurological Institute, Larned State Hospital, Osawatomie State Hospital, Parsons State Hospital, and Rainbow Mental Health Facility).

According to KS-SRS staff, Administration Division costs are not allocated to the State medical institutions because the institutions do not receive the same level of service from the Administration Division as the components that were allocated these costs. However, we found that the Administration Division is directly involved in the activities of the State medical institutions. For example, the Administration Division's executive services staff makes decisions regarding the operations of the institutions, such as capital improvements, staffing, and salary levels. The human resources staff also provides services to the State medical institutions to include staffing-related assistance. Therefore, we concluded that the 2,499 FTEs assigned to the State medical institutions should be included in the allocation of the Administration Division's costs.

The exclusion of the State medical institutions' FTEs when allocating the Administration Division's costs violates OMB Circular A-87 because it does not result in an equitable allocation of costs to all benefiting activities. Furthermore, it does not treat the costs consistently between the SSA disability programs and other benefiting components within KS-SRS.

We recalculated the Administration Division's costs that should have been charged to the KS-DDS based on 6,521 KS-SRS FTEs. Based on this recalculation, KS-DDS was allocated \$621,288 in excessive costs from October 1, 1997 through March 31, 2002.

Information Technology

The IT unit within the Administration Division provides the following services to all KS-SRS staff: computer support, data management and collection, programming, telecommunication, network connections, and mainframe computer operations.

According to the approved CAP, IT costs are to be allocated based on a 100-percent time study of IT activities. However, we found that KS-SRS allocated IT costs based on a time study of some IT programmer staff. The programmer staff accounted for only 13 to 22 percent of the total IT staff during our audit period. A time study of programmer staff may not provide an accurate accounting of IT staff activities.

KS-SRS violated OMB Circular A-87 because it did not allocate IT costs in accordance with the approved CAP. We could not calculate the IT costs that should have been allocated to KS-DDS because the 100-percent time study information did not exist. Therefore, we cannot express an opinion on the acceptability of \$435,052 in IT expenses allocated to KS-DDS from October 1997 through March 2002.

INCORRECT FISCAL YEAR PAYMENTS

We identified payments of \$1,106,542⁸ reported on the Form SSA-4513 in the wrong FYs, although the costs were otherwise acceptable for reimbursement by SSA. The incorrect reporting of FY payments occurred because KS-SRS (1) finalized the Form SSA-4513 before all obligations were liquidated, (2) incorrectly allocated rental space costs, and (3) did not always perform necessary manual adjustments. Section 1502(a) of Title 31, United States Code, provides, in part, that "...the balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability.... However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law."

Improperly shifting funds between FYs prevents SSA from accurately monitoring the status of States' expenditures and unexpended appropriations. The effect is to reduce the Agency's ability to manage the allocation and use of budgeted funds among States.

Premature Finalizing of the Form SSA-4513

KS-SRS finalized the Form SSA-4513 before all FY obligations had been liquidated. When the obligations were liquidated, the payment was recorded as an expenditure in the subsequent FY. Prematurely finalizing the Form SSA-4513 resulted in medical costs of at least \$41,542 being recorded in the wrong FY.

Contractual Payments

The lease agreement for the KS-DDS' office space requires that 12 months of rent be paid on July 1 of each year. In July 1998, the DDS made one annual payment to prepay rent for the period July 1, 1998 through June 30, 1999. The DDS claimed these costs on the Form SSA-4513 for FY 1998, although \$303,173 was FY 1999 expenses (rent for October 1998 through June 1999). The same condition existed in subsequent periods, resulting in FY 2000 rent expenses of \$308,598 being claimed for FY 1999, and FY 2001 rent expenses of \$307,789 being claimed for FY 2000. This condition will continue throughout the period of the lease agreement and will result in an inaccurate reporting of FY expenses on the Form SSA-4513 every FY.

⁸ We identified FY 2000 indirect costs of \$47,291 that were claimed on the FY 1999 Form SSA-4513. This cost was accounted for in the indirect costs section of this report so it is not included as part of this finding.

KS-DDS enters into service agreements and purchases software licenses that cover a 1-year period. However, the period does not coincide with the FY, resulting in costs being claimed for the incorrect FY, as follows.

Year Claimed	Correct Year	Costs
1998	1997	\$1,099
1999	1998	\$10,352
2000	2001	\$76,245

Manual Adjustment

In some cases, a manual adjustment is necessary to report costs in the correct FY. These manual adjustments were not always made, resulting in costs being claimed for the incorrect FY, as follows.

Year Claimed	Correct Year	Costs
1998	1997	\$41,404
1999	1998	\$8,884
2000	1999	\$7,456

CONSULTATIVE EXAMINATION COSTS

From October 1998 through September 2000, KS-DDS claimed \$591,340 in unallowable CE costs (see Appendix D). This occurred because KS-DDS reimbursed certain hospitals, clinics, and individual physicians for CEs at rates of payment that exceeded the highest rate paid by Federal (Medicare) or other agencies in the State (Workers' Compensation). According to 20 CFR §§ 404.1624 and 416.1024, "The rates may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar type of service."

Most of the unallowable CE costs resulted from KS-DDS paying hospitals and clinics for CEs at rates equal to the medical providers' usual and customary charges, less 10 percent. KS-DDS considers the payment of usual and customary charges to hospitals and clinics to be allowable since the policy was created by its parent agency, KS-SRS. In determining whether KS-DDS complied with 20 CFR §§ 404.1624 and 416.1024, we consider KS-SRS and KS-DDS to be part of the same agency. Our research of the Kansas statutes did not show the KS-DDS having separate authority from KS-SRS.⁹ In fact, our review of various KS-SRS budget and organizational documents show that KS-DDS is a subdivision of KS-SRS, not a separate agency. Moreover, Federal or other State agencies do not use these rates. While KS-SRS does pay at these rates for similar type services, it was unable to provide us with documentation showing the extent to which these services were purchased. However, we were informed that the volume of services purchased by KS-SRS was considerably less than that of the KS-DDS. Regardless, where the DDS parent agency sets rates

⁹ Kansas Statute Annotated § 39-708c.

higher than paid by Federal or other State agencies, we believe this violates the regulations adopted by SSA and results in improperly inflated CE costs.

Payment of usual and customary charges less 10 percent to hospitals and clinics continued after our audit period. Therefore, SSA should instruct KS-DDS to determine the extent to which CE costs incurred after our audit period exceeded the highest Federal or State agency rates allowable in the State of Kansas. The excessive amounts identified by KS-DDS should be used to reduce CE obligations reported for FYs 2001 and 2002.

NON-SSA WORK

SSA was charged \$142,140 in unallowable costs for non-SSA work-related costs for the period October 1997 through September 2000. This occurred because KS-SRS did not calculate non-SSA work costs in accordance with the terms agreed upon by KS-SRS and SSA in the MOU for non-SSA work.

Unallowable Non-SSA Work Costs Charged to SSA			
FY	Non-SSA Work Costs Per MOU	Non-SSA Work Costs Credited to SSA	Non-SSA Work Costs Charged to SSA
1998	\$127,415	\$147,124	\$(19,709)
1999	162,714	90,039	72,675
2000	115,796	26,622	89,174
Total	\$405,925	\$263,785	\$142,140

An MOU, dated August 1974 and signed by the Secretary of KS-SRS and the SSA Regional Commissioner, outlines the arrangements for the non-SSA workload. The non-SSA workload consists of disability determinations for State Medical Assistance claims. The MOU states that KS-DDS will be given credit quarterly for the non-SSA work determined on a cost per case basis. Case costs will be determined by dividing the total obligations (personnel, medical, indirect costs, and all other nonpersonnel costs) by the total Federal and non-Federal claims processed. The MOU includes a statement to the effect that the assumption of the non-SSA program workload would not interfere with the prompt and effective completion of SSA-related claims. The MOU was to remain in effect until terminated by either party or revised by mutual consent of both parties.

The method KS-SRS used to calculate non-SSA costs was not consistent with the terms of the MOU, resulting in KS-SRS charging non-SSA work costs to SSA. KS-SRS used the following method to calculate non-SSA costs during our audit period.¹⁰

- For the period October 1997 through March 1999, KS-SRS recorded medical expenses for non-SSA work costs separately from the SSA medical expenses and

¹⁰ This method was also used in FYs 2001 and 2002 to calculate non-SSA work costs.

did not charge these costs to SSA. The KS-SRS also calculated the costs of non-SSA work based on a percentage of non-SSA medical expenses to total medical expenditures. This percentage was then applied to the KS-DDS' personnel and all other non-personnel expenditures to arrive at the non-SSA work costs. The cost of the non-SSA work was then deducted from the expenditures reported to SSA for reimbursement.

KS-SRS stated that indirect costs reported to SSA for reimbursement were also reduced using the aforementioned percentage. While we could confirm that SSA was given credit in the areas of medical and all other non-personnel costs for the non-SSA work, we could not identify a credit for indirect costs. Our reconciliation of indirect costs claimed to KS-SRS' accounting records did not identify any reductions in the indirect costs reported to SSA for non-SSA work.

- After March 1999, KS-SRS continued to record medical expenses for non-SSA work costs separately from the SSA medical expenses and did not charge these costs to SSA. However, KS-SRS no longer calculated a percentage to apply to KS-DDS' personnel and all other nonpersonnel expenditures to arrive at the non-SSA work costs. As previously discussed, our reconciliation of indirect costs claimed to KS-SRS' accounting records did not identify any reductions in the indirect costs reported to SSA for non-SSA work.

ALL OTHER NONPERSONNEL COSTS

We identified \$17,651 in unallowable costs in the all other non-personnel costs categories of communications and rental costs. OMB Circular A-87 states "To be allowable under Federal awards, costs must meet the following general criteria...be necessary and reasonable for proper and efficient performance and administration of Federal awards...be adequately documented."

Communication

Communication costs include cellular telephone and pager services, local and long distance communication services paid directly to a commercial vendor, and reimbursement to the State Division of Information Systems and Communications for local and long distance telephone services and data communication services. We identified unallowable communication costs of \$15,134.

- KS-DDS was charged \$6,401, \$4,049, and \$1,541 during FYs 1998, 1999, and 2000, respectively, for telephone service and data connects that were not located in its office space. This occurred because the State Division of Information Systems and Communications continued to charge KS-DDS the costs of telephone service and data connects that were located at KS-DDS' previous office location (Docking State Office Building) after KS-DDS moved to new office space.

- SSA reimbursed KS-DDS for \$155 in personal cellular telephone charges in FY 2000. KS-DDS allows personal calls on State-owned cellular telephones, but the user is required to reimburse the KS-DDS for the costs of personal calls. KS-DDS has procedures in place to review cellular telephone bills to ensure that personal telephone calls are not charged to SSA. However, the procedures were not followed in this case.
- In FYs 1998 and 1999, KS-DDS paid \$19 and \$439, respectively, for long distance telephone calls placed from telephones not located in the DDS. KS-DDS has procedures to review long distance charges to determine whether calls were placed from DDS telephones. These procedures identified calls that should not have been billed to the DDS. However, procedures are lacking to ensure that KS-DDS receives credit for the calls.
- KS-DDS paid Federal, State and local Excise taxes and Federal taxes in FYs 1998 and 2000 on telephone bills totaling \$812 and \$5, respectively. KS-DDS has procedures to review telephone bills and exclude the taxes but failed to identify the taxes in these cases.
- Our sample identified late fees of \$59 and \$147 paid in FYs 1998 and 2000, respectively. DDS procedures were not sufficient to ensure that bills were paid timely to avoid late fees.
- Documentation did not exist to support a \$1,507 telephone bill for FY 1998. We could not determine why there was no documentation.

Office Utility Costs

In FY 1998, the DDS paid \$2,517 in excessive utility costs. KS-DDS occupies 30 percent of the 102,167 square feet in office space covered by gas, electric, and water meters. Therefore, KS-DDS is responsible for paying the lessor for 30 percent of the gas, electric, and water. However, from September 1997 through February 1998, KS-DDS paid approximately 37 percent of the utility costs because a portion of the square footage covered by the meters was vacant. Thus, KS-DDS paid utility costs allocated for office space it did not occupy.

CASH MANAGEMENT

Funds to cover State DDS expenditures are drawn from the ASAP system. For each FY, State DDSs are assigned an Account Identification number in the ASAP system. SSA is responsible for establishing, maintaining and funding DDS accounts in the ASAP system to control the flow of funds to the State. Cash draws made from the Account Identification number are to reimburse KS-DDS for expenditures incurred during the same period as the Account Identification number's FY reporting period.

31 USC §1502 (a) provides, in part that, "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability.... However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law."

The State determines daily whether a cash draw is needed by reviewing the State FY total revenue and expenditure amounts for KS-DDS. However, the State does not identify the revenue and expenditure amounts by FY, and expenditures may encompass more than one FY reporting period. If total expenditures exceed total revenue, a cash draw is made. The draw is generally made from the oldest FY reporting period that has funds still available, even though it has not been determined whether the expenditures relate to that or a subsequent period. Therefore, the State's records did not reflect the actual beginning or ending cash balances of Federal funds for each FY reporting period, nor did the records accurately show when Federal funds authorized for a FY reporting period were fully expended.

We reviewed cash draws reported in ASAP for FY reporting periods 1998 through 2000 and found the State drew funds in excess of expenditures during FYs 1998 and 2000 in the amounts of \$674,469 and \$317,490, respectively. This occurred because the State did not have procedures for determining and accounting for cash draws by FY reporting period. To correct the excess draws, the State adjusts the cash draw amounts within the ASAP system and the State's accounting records at the close of each FY reporting period. At the time of our audit, the State had adjusted the ASAP system and its accounting records to correct the excess cash draws made during FYs 1998 and 2000. However, the State's procedures do not comply with Federal regulations and provide no assurance that SSA's appropriations are being properly used.

SEGREGATION OF DUTIES

The KS-DDS' timekeeper maintains her own time and attendance records, and there is no policy to prohibit this practice. Our review did not disclose any improprieties resulting from the lack of segregation of duties in the timekeeping function. However, this lack of controls results in an environment susceptible to fraud and abuse. The General Accounting Office (GAO) *Standards for Internal Controls in the Federal Government* state that "No one individual should control all key aspects of a transaction or event." The GAO standards further state that adequate separation of duties should "...include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets."¹¹

¹¹ GAO *Standards for Internal Controls in the Federal Government*-AIMD-00-21.3.1 (November 1999).

ACCESS CONTROLS

KS-DDS uses a WANG mini-computer system for case processing activities to include processing consultative and medical examination work loads, travel authorizations, and purchase orders using software developed by a contractor. KS-DDS accesses the WANG computer system using computer workstations connected to SSA's Intelligent Workstation/Local Area Network (IWS/LAN). KS-DDS relies heavily on the personal data of the disability claimants contained within the WANG computer system.

SSA's Systems Security Handbook (SSH) and the DDS Security Document address the access controls for computer systems. These documents state that DDS employees are authorized access to only those functions needed to perform their jobs. The documents also state that management should (1) control access to all manual and automated claimant records, (2) ensure that only personnel requiring access to claimant data on DDS systems receive that access, and (3) monitor personnel activity so misconduct can be deterred and/or detected.¹²

We reviewed KS-DDS' access controls and identified the following weaknesses.

- Procedures for deactivating terminated employee's computer access privileges were not always followed. We identified 5 SSA IWS/LAN user accounts and 15 DDS WANG user accounts for terminated employees that were not deleted. We also identified a DDS employee who had inappropriate access to one of the terminated employee's IWS/LAN account. SSA policy requires the terminated employees' computer accounts be immediately deactivated.¹³
- DDS employees are not required to change their passwords every 30 days. SSA policy requires passwords to be changed at least every 30 days.¹⁴
- Six DDS employees had system administrator privileges beyond those required to perform their duties, and 18 were granted excessive IWS/LAN access privileges. SSA's policy restricts user access to the minimum necessary to perform his or her job duties.¹⁵

¹² DDS, Security Document – II Roles and Responsibilities, SSA's SSH, Chapter 10 – Systems Access Security, SSA's SSH, Chapter 12 – Audit Trail System.

¹³ SSA's SSH, Chapter 10 – Systems Access Security.

¹⁴ Ibid.

¹⁵ ibid.

Weak access controls increase the risk that unauthorized users, or authorized users making unauthorized transactions, can obtain access to the system. This, in turn, increases the risk that data and/or programs could be altered, deleted, replaced, or overwritten. Therefore, by improving the KS-DDS access controls, it would better protect the confidentiality and integrity of disability claimant's personal information.

Conclusions and Recommendations

We concluded that costs claimed by the KS-DDS were overstated by \$3,499,969 for the period October 1998 through September 2000 because of (1) incorrect indirect cost allocations, (2) excessive CE payments, (3) inappropriate non-SSA work cost charges, and (4) inaccurate other nonpersonnel costs. We also found \$2,174,768 was overstated during the period October 2000 through March 2002 because of incorrect indirect cost allocations. In addition, we identified payments of \$1,106,542 reported on the Form SSA-4513 in the incorrect FY. Furthermore, funds were not drawn in accordance with Federal regulations, duties were not segregated in the timekeeping function, and access controls needed to be strengthened.

We recommend that SSA instruct KS-DDS and KS-SRS to:

1. Refund \$4,923,606 for indirect costs inappropriately charged to SSA from FYs 1998 through March 31, 2002.
2. Determine the proper amount of allocable IT costs in accordance with the CAP.
3. Amend the KS-SRS cost allocation plans for FYs 2001, 2002, and future years to reflect an equitable distribution of indirect costs to SSA.
4. Reclassify \$1,106,542 of expenditures incorrectly reported on the Form SSA-4513s in the wrong FY.
5. Determine whether expenditures reported on the Form SSA-4513s for FYs 1998 through 2002 were claimed in the proper FY and reclassify expenditures, as appropriate.
6. Establish procedures for reporting expenditures in the correct FY.
7. Refund \$591,340 for CE costs that exceed the highest rate allowable by Federal or other agencies in the State of Kansas.
8. Determine the extent to which CE costs reported on the Form SSA-4513s for FYs 2001 and 2002 exceed the highest rate allowable by Federal or other agencies in the State of Kansas and reduce the reported obligations as appropriate.
9. Limit future CE payments to the highest rate allowable by Federal or other agencies in the State of Kansas, clarifying on a national level, by regulation or otherwise, that 20 CFR 404.1624 and 416.1024 do not permit a State DDS parent agency to set DDS CE fees in excess of the highest rate allowable by Federal or other agencies in the State.

10. Refund \$142,140 for non-SSA costs inappropriately charged to SSA.
11. Calculate non-SSA costs for FYs 2001 and 2002 in accordance with the MOU and adjust the obligations reported on the Form SSA-4513s for any non-SSA costs charged to SSA.
12. Calculate future non-SSA costs in accordance with the terms of the MOU.
13. Refund \$15,134 for unallowable communications costs charged to SSA during FYs 1998 through 2000.
14. Review the propriety of all FY 1998 through 2000 communication-related payments and refund any unallowable costs to SSA.
15. Develop procedures to review the propriety of communication costs charged to the KS-DDS by other State agencies and private communication companies and ensure that unallowable costs are not claimed for SSA-reimbursement.
16. Refund \$2,517 for the unallowable utility costs charged to SSA during FY 1998.
17. Limit payments for utility costs to the costs associated with KS-DDS' office space.
18. Establish cash draw procedures that associate FY reporting period cash draws with the same FY expenditures.
19. Establish an alternate timekeeper to ensure that the primary timekeeper does not maintain her own time and leave records.
20. Improve computer access controls by (1) immediately deactivating computer access privileges for terminated employees, (2) requiring employees to change passwords every 30 days, and (3) limiting employees' system access to the minimum necessary to perform his or her job duties.

AGENCY COMMENTS

In commenting on the draft report, SSA did not fully agree with our recommendations related to the incorrect reporting FY expenditures. SSA believes the State correctly reported the payment of rent and other service agreements and purchases based on the terms of the contract/agreement.

In addition, SSA did not agree with our recommendations related to CE costs that exceeded the highest rate allowable by Federal or other agencies in the State of Kansas. SSA believes that KS-DDS and KS-SRS are separate agencies, and the KS-DDS' use of the KS-SRS fee schedule for CE payment is in accordance with

Federal regulations. However, SSA stated the KS-DDS changed its policy and no longer uses the KS-SRS fee schedule for CE payment.

See Appendix E for the full text of SSA's comments to our report, including the State's response.

OIG RESPONSE

The KS-DDS's policy of paying rent and other contractual expenditures at the beginning of the State FY instead of the beginning of the Federal FY results in some costs related to one fiscal year being claimed for reimbursement in another FY. This policy violates section 1502(a) of Title 31, United States Code, which provides, in part, that "...the balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability.... However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law." Unless the KS-DDS establishes procedures that allow for reporting expenditures in the correct FY, as recommended in our report, it will continue to violate this Federal regulation.

We do not agree with SSA's position that KS-SRS and KS-DDS are separate agencies for the purpose of establishing CE rates of payment. As stated in our report, our research of the Kansas statutes did not show the KS-DDS as having separate authority from KS-SRS. In fact, our review of various KS-SRS budget and organizational documents shows that KS-DDS is a subdivision of KS-SRS, not a separate agency. We continue to believe that regulations adopted by SSA are violated when a DDS parent agency sets rates higher than rates paid by Federal or other State agencies. We reaffirm our position that 20 CFR 404.1624 and 416.1024 do not permit a State DDS parent agency to set DDS CE fees in excess of the highest rate paid by Federal or other agencies in the State. As noted in our report, the rates established by KS-SRS are used primarily by the KS-DDS. We leave to the Agency's discretion the waiver of overpayments related to the excessive CE fees.

Appendices

SAMPLING METHODOLOGY

Our sampling methodology encompassed the four general areas of costs as reported on Form SSA-4513: (1) personnel, (2) medical, (3) indirect, and (4) all other non-personnel costs. We obtained computerized data from Kansas Department of Social and Rehabilitation Services (KS-SRS) and Kansas Disability Determination Services (KS-DDS) for Fiscal Years (FY) 1998 through 2000 for use in statistical sampling. In addition, we obtained the electronic files SRS used to calculate indirect costs claimed for FY 1998 through the second quarter of FY 2002. After selecting and reviewing randomly selected samples, we did not identify errors we felt warranted audit projection.

Personnel Costs

We judgmentally sampled 15 employees and contractors from 2 randomly selected pay periods in FY 2000. We tested the payroll records to ensure individuals were paid correctly and payroll was adequately documented.

Medical Costs

We sampled 300 items (100 items from each FY) using a stratified random sample. We stratified medical costs into Medical Evidence of Record and Consultative Examinations (CE), selecting more CE invoices because CE costs represented 76 percent of all medical costs. Our review identified CEs purchased for more than the allowable amount. As a result, we expanded our sample to include a 100-percent review of CEs and reported the actual amount KS-DDS paid for CEs above the allowable amount.

Indirect Costs

We conducted a 100-percent review of indirect cost categories and methods used to allocate those costs for reimbursement purposes. Our objective was to ensure the Social Security Administration reimbursed KS-DDS in compliance with the State Cost Allocation Plan (CAP). In each FY, we judgmentally sampled various expenditure items used to allocate the indirect costs. We identified noncompliance with the CAP and reported the actual indirect costs determined to be unallowable.

All Other Non-personnel Costs

We selected a stratified random sample of 312 items (104 expenditures from each FY) of All Other Non-personnel costs. We stratified All Other Non-personnel costs into eight cost categories: (1) Applicant Travel, (2) Staff Travel, (3) Communications, (4) Equipment, (5) Electronic Data Processing/Word Processing, (6) Contracting Out, (7) Miscellaneous, and (8) Occupancy. We selected a stratified random sample of 100 items from each FY based on the percentage of costs in each category (excluding occupancy) to total costs. We also selected a judgmental sample of four occupancy expenditures from each FY for the Occupancy category. Our review of Occupancy identified excessive utility costs being charged to KS-DDS. As a result, we expanded our review to include all utility costs through March 1998. We identified unallowable Communication costs, and we reported the actual amount of unallowable costs identified.

Appendix B

KANSAS DISABILITY DETERMINATION SERVICES REPORTED VERSUS ALLOWED OBLIGATIONS

Federal Fiscal Year (FY) 1998					
	Personnel	Medical	Disbursements Indirect	All Other	Total
As Reported by the Kansas Disability Determination Services (KS-DDS)	\$5,398,590	\$2,821,459	\$1,490,069	\$2,210,899	\$11,921,017
Audit Adjustments: Unallowable Cost Non-Social Security Administration (SSA) Work	7,285	(167,043) 16,266	(896,907) (6,875)	(11,315) 3,033	(1,075,265) 19,709
Total Adjustments	7,285	(150,777)	(903,782)	(8,282)	(1,055,556)
Allowed as a Result of Audit	\$5,405,875	\$2,670,682	\$586,287	\$2,202,617	\$10,865,461

FY 1999					
	Personnel	Medical	Disbursements Indirect	All Other	Total
As Reported by the KS-DDS	\$5,858,877	\$3,473,740	\$1,524,981	\$1,850,369	\$12,707,967
Audit Adjustments: Unallowable Cost Non-SSA Work	(56,908)	(250,493) 13,210	(887,422) (8,900)	(4,488) (20,077)	(\$1,142,403) (72,675)
Total Adjustments	(56,908)	(237,283)	(896,322)	(24,565)	(1,215,078)
Allowed as a Result of Audit	\$5,801,969	\$3,236,457	\$628,659	\$1,825,804	\$11,492,889

FY 2000					
	Personnel	Medical	Disbursements Indirect	All Other	Total
As Reported by the KS-DDS	\$5,714,508	\$3,341,961	\$1,457,011	\$1,809,193	\$12,322,673
Audit Adjustments: Unallowable Cost Non-SSA Work	(59,034)	(173,804) (6,381)	(964,509) (5,088)	(1,848) (18,671)	(1,140,161) (89,174)
Total Adjustments	(59,034)	(180,185)	(969,597)	(20,519)	(1,229,335)
Allowed as a Result of Audit	\$5,655,474	\$3,161,776	\$487,414	\$1,788,674	\$11,093,338

Appendix C

KANSAS DISABILITY DETERMINATION SERVICES INDIRECT COSTS

Kansas Rehabilitation Services (KRS) Central Office Costs

KRS Central Office costs are allocated based on Full-Time Equivalents (FTE). However, we found that KRS field offices and the Client Assistance Program were excluded from the allocation. We recalculated the allocation of the KRS Central Office costs including KRS field office and Client Assistance Program FTEs as summarized below.

	Fiscal Year (FY)					Total
	1998	1999	2000	2001	2002	
Original Allocation	\$1,091,729	\$1,050,679	\$1,137,692	\$1,361,515	\$1,035,582	\$5,677,197
New Allocation	296,679	294,483	302,719	300,804	180,194	\$1,374,879
Unallowable Cost charged to Kansas	\$795,050	\$756,196	\$834,973	\$1,060,711	\$855,388	\$4,302,318
Disability Determination Services (KS-DDS)						

State Medical Institutions

The Cost Allocation Plan (CAP) states that Administrative Division costs should be allocated based on FTEs. We found that the Kansas Department of Social and Rehabilitation Services allocated the Administrative Division Costs based on all FTEs except for the 2,499 FTEs assigned to the State medical institutions. We recalculated the allocation of the Administrative Division costs including the FTEs assigned to the State medical institutions. The results are summarized below.

	FY					Total
	1998	1999	2000	2001	2002	
Original Allocation	\$244,747	\$313,153	\$303,382	\$381,366	\$212,059	\$1,454,707
New Allocation	142,890	181,927	173,846	214,432	120,324	833,419
Unallowable Cost charged to KS-DDS	\$101,857	\$131,226	\$129,536	\$166,934	\$91,735	\$621,288

Information Technology

According to the approved CAP, Information Technology (IT) costs were to be allocated based on a 100-percent time study. The following details the IT expenses that were allocated to KRS Central Office costs, which in turn were allocated in part to the KS-DDS. We could not calculate the IT costs that should have been allocated to KS-DDS because 100 percent time study information did not exist. Therefore, we cannot express an opinion on the acceptability of \$435,052 in IT expenses allocated to KS-DDS from FY 1998 through 2 quarters of FY 2002, or October 1997 through March 2002.

	Fiscal Year					Total
	1998	1999	2000	2001	2002	
IT Costs Allocated to KS-DDS	\$54,300	\$114,339	\$114,769	\$93,651	\$57,993	\$435,052

Appendix D

KANSAS DISABILITY DETERMINATION SERVICES CONSULTATIVE EXAMINATION COSTS

Fiscal Year 1998

CPT Code	Highest Allowable Fee Schedule	Highest Allowable Fee	Number of Exams	Amount Allowable	Amount KS-DDS Paid	Unallowable Costs
94010	Workers' Compensation	\$61.00	892	\$54,412.00	\$107,574.93	\$53,162.93
72100	Workers' Compensation	74.00	447	33,078.00	58,612.79	25,534.79
73560	Workers' Compensation	54.00	379	20,466.00	39,554.12	19,088.12
71010	Workers' Compensation	43.00	248	10,664.00	21,353.63	10,689.63
95851	Workers' Compensation	41.00	192	7,872.00	14,162.74	6,290.74
92507	Workers' Compensation	33.00	91	3,003.00	9,218.70	6,215.70
80054	Medicare Rate	12.48	86	1,073.28	5,701.15	4,627.87
73510	Workers' Compensation	70.00	111	7,770.00	12,100.42	4,330.42
92082	Workers' Compensation	55.00	205	11,275.00	15,272.40	3,997.40
71020	Workers' Compensation	55.00	82	4,510.00	8,318.51	3,808.51
73600	Workers' Compensation	50.00	84	4,200.00	7,821.93	3,621.93
73030	Workers' Compensation	59.00	72	4,248.00	7,615.70	3,367.70
94720	Workers' Compensation	61.00	59	3,599.00	6,356.58	2,757.58
82803	Workers' Compensation	53.00	49	2,597.00	4,992.79	2,395.79
73120	Workers' Compensation	45.00	24	1,080.00	2,761.23	1,681.23
80012	Workers' Compensation	25.00	35	875.00	2,510.03	1,635.03
93000	Workers' Compensation	52.00	39	2,028.00	3,590.33	1,562.33
73620	Workers' Compensation	50.00	38	1,900.00	3,164.35	1,264.35
92004 ¹	Workers' Compensation	75.00	95	7,125.00	8,363.25	1,238.25
93922	Workers' Compensation	128.00	7	896.00	1,953.78	1,057.78
72110	Workers' Compensation	101.00	27	2,727.00	3,625.06	898.06
72040	Workers' Compensation	65.00	21	1,365.00	2,143.53	778.53
80019	Workers' Compensation	41.00	17	697.00	1,466.94	769.94
73100	Workers' Compensation	48.00	20	960.00	1,430.06	470.06
73070	Workers' Compensation	48.00	7	336.00	699.95	363.95
76062	Workers' Compensation	130.00	1	130.00	468.00	338.00
72070	Workers' Compensation	73.00	5	365.00	679.98	314.98
73590	Workers' Compensation	57.00	11	627.00	915.88	288.88
73564	Workers' Compensation	100.00	1	100.00	370.80	270.80
85031	Workers' Compensation	19.00	11	209.00	477.54	268.54
36415	Workers' Compensation	10.00	41	410.00	675.48	265.48
80016	Workers' Compensation	37.00	2	74.00	318.60	244.60
85651	Workers' Compensation	13.00	19	247.00	479.52	232.52
80164	Workers' Compensation	49.00	11	539.00	740.58	201.58
80156	Workers' Compensation	42.00	13	546.00	740.42	\$194.42

¹ The actual code used by the Kansas Disability Determination Services (KS-DDS) is Ophthalmological.

CPT Code	Highest Allowable Fee Schedule	Highest Allowable Fee	Number of Exams	Amount Allowable	Amount KS-DDS Paid	Unallowable Costs
80185	Workers' Compensation	\$42.00	9	\$378.00	\$562.57	\$184.57
90830	Medicare Rate	411.66	1	411.66	588.60	176.94
86038	Workers' Compensation	40.00	5	200.00	355.67	155.67
85014	Workers' Compensation	10.00	18	180.00	332.22	152.22
92585	Workers' Compensation	166.00	1	166.00	315.00	149.00
72052	Workers' Compensation	103.00	4	412.00	559.80	147.80
72170	Workers' Compensation	56.00	4	224.00	370.84	146.84
92557	Workers' Compensation	72.00	1	72.00	217.80	145.80
80058	Workers' Compensation	36.00	2	72.00	216.14	144.14
80299	Medicare Rate	18.92	3	56.76	179.20	122.44
73110	Workers' Compensation	57.00	3	171.00	285.41	114.41
94375	Workers' Compensation	58.00	3	174.00	287.42	113.42
71100	Workers' Compensation	62.00	1	62.00	158.40	96.40
73562	Workers' Compensation	66.00	3	198.00	290.24	92.24
72090	Workers' Compensation	88.00	3	264.00	350.55	86.55
97750	Workers' Compensation	33.00	1	33.00	115.20	82.20
86430	Workers' Compensation	21.00	5	105.00	182.76	77.76
73630	Workers' Compensation	59.00	2	118.00	195.07	77.07
80184	Workers' Compensation	47.00	4	188.00	256.37	68.37
82250	Workers' Compensation	15.00	5	75.00	130.52	55.52
72200	Workers' Compensation	61.00	1	61.00	115.20	54.20
85021	Workers' Compensation	15.00	4	60.00	107.05	47.05
80061	Workers' Compensation	51.00	1	51.00	94.94	43.94
76020	Workers' Compensation	63.00	1	63.00	103.50	40.50
73060	Workers' Compensation	55.00	1	55.00	91.75	36.75
82565	Workers' Compensation	15.00	5	75.00	105.75	30.75
83690	Workers' Compensation	27.00	1	27.00	46.75	19.75
86140	Workers' Compensation	22.00	1	22.00	40.81	18.81
82150	Workers' Compensation	22.00	1	22.00	40.54	18.54
81000	Workers' Compensation	12.00	1	12.00	29.70	17.70
82977	Workers' Compensation	27.00	1	27.00	43.28	16.28
80168	Workers' Compensation	39.00	1	39.00	54.94	15.94
49400	Workers' Compensation	264.00	1	264.00	279.00	15.00
84478	Workers' Compensation	16.00	1	16.00	28.94	12.94
85610	Workers' Compensation	16.00	1	16.00	27.00	11.00
93015	Workers' Compensation	206.00	1	206.00	214.18	8.18
86255	Workers' Compensation	51.00	1	51.00	57.60	6.60
82947	Workers' Compensation	13.00	1	13.00	17.46	4.46
93010	Workers' Compensation	24.00	1	24.00	27.90	3.90
82550	Workers' Compensation	22.00	1	22.00	24.72	2.72
						Total \$167,042.79

KANSAS DISABILITY DETERMINATION SERVICES CONSULTATIVE EXAMINATION COSTS

Fiscal Year 1999

CPT Code	Highest Allowable Fee Schedule	Highest Allowable Fee	Number of Exams	Amount Allowable	Amount KS-DDS Paid	Unallowable Costs
94010	Workers' Compensation	\$61.00	991	\$60,451.00	\$123,808.74	\$63,357.74
72100	Workers' Compensation	74.00	556	41,144.00	77,388.36	36,244.36
73560	Workers' Compensation	54.00	434	23,436.00	47,922.78	24,486.78
97750	Workers' Compensation	33.00	120	3,960.00	25,442.61	21,482.61
95851	Workers' Compensation	41.00	327	13,407.00	31,038.34	17,631.34
71010	Workers' Compensation	43.00	411	17,673.00	33,798.89	16,125.89
92507	Medicare Rate	36.28	195	7,074.97	19,311.72	12,236.75
73510	Workers' Compensation	70.00	153	10,710.00	17,737.80	7,027.80
80054	Medicare Rate	14.61	166	2,425.26	9,431.84	7,006.58
92082	Workers' Compensation	55.00	218	11,990.00	16,930.24	4,940.24
73030	Workers' Compensation	59.00	87	5,133.00	9,827.93	4,694.93
73600	Workers' Compensation	50.00	78	3,900.00	7,600.59	3,700.59
73120	Workers' Compensation	45.00	52	2,340.00	5,784.91	3,444.91
94720	Workers' Compensation	61.00	68	4,148.00	7,500.55	3,352.55
71020	Workers' Compensation	55.00	85	4,675.00	7,740.14	3,065.14
92004 ²	Workers' Compensation	75.00	133	9,975.00	12,329.75	2,354.75
82803	Workers' Compensation	53.00	35	1,855.00	3,622.58	1,767.58
72040	Workers' Compensation	65.00	28	1,820.00	3,292.41	1,472.41
73100	Workers' Compensation	48.00	27	1,296.00	2,730.92	1,434.92
93922	Workers' Compensation	128.00	17	2,176.00	3,598.99	1,422.99
73620	Workers' Compensation	50.00	36	1,800.00	3,152.42	1,352.42
93000	Workers' Compensation	52.00	23	1,196.00	2,428.29	1,232.29
72110	Workers' Compensation	101.00	17	1,717.00	2,940.30	1,223.30
92557	Workers' Compensation	72.00	5	360.00	1,125.00	765.00
73070	Workers' Compensation	48.00	14	672.00	1,371.16	699.16
85651	Workers' Compensation	13.00	50	650.00	1,338.86	688.86
72070	Workers' Compensation	73.00	9	657.00	1,282.10	625.10
95904	Workers' Compensation	58.00	3	174.00	751.05	577.05
72090	Workers' Compensation	88.00	6	528.00	990.18	462.18
72170	Workers' Compensation	56.00	11	616.00	993.78	377.78
93307	Workers' Compensation	402.00	1	402.00	771.96	369.96
73630	Workers' Compensation	59.00	5	295.00	642.15	347.15
73562	Workers' Compensation	66.00	4	264.00	580.78	316.78
73110	Workers' Compensation	57.00	8	456.00	770.22	314.22
72052	Workers' Compensation	103.00	4	412.00	715.50	303.50
36415	Workers' Compensation	10.00	55	550.00	846.25	296.25
80185	Workers' Compensation	42.00	14	588.00	873.21	285.21

² Ibid

CPT Code	Highest Allowable Fee Schedule	Highest Allowable Fee	Number of Exams	Amount Allowable	Amount KS-DDS Paid	Unallowable Costs
95819	Workers' Compensation	\$162.00	2	\$324.00	\$568.80	\$244.80
93925	Workers' Compensation	309.00	1	309.00	552.60	243.60
85031	Workers' Compensation	19.00	10	190.00	413.66	223.66
80156	Workers' Compensation	42.00	8	336.00	532.59	196.59
80299	Medicare Rate	18.92	4	75.68	261.45	185.77
86430	Workers' Compensation	21.00	12	252.00	416.76	164.76
92568	Workers' Compensation	30.00	4	120.00	270.00	150.00
73550	Workers' Compensation	61.00	2	122.00	271.80	149.80
82250	Workers' Compensation	15.00	8	120.00	262.51	142.51
94375	Workers' Compensation	58.00	4	232.00	363.69	131.69
95860	Workers' Compensation	127.00	2	254.00	381.60	127.60
95903	Medicare Rate	43.97	1	43.97	165.60	121.63
92555	Workers' Compensation	25.00	4	100.00	216.00	116.00
92567	Workers' Compensation	30.00	9	270.00	380.70	110.70
80164	Workers' Compensation	49.00	2	98.00	188.43	90.43
92582	Workers' Compensation	32.00	2	64.00	152.70	88.70
86038	Workers' Compensation	40.00	4	160.00	241.01	81.01
93015	Workers' Compensation	206.00	2	412.00	480.15	68.15
92552	Workers' Compensation	32.00	1	32.00	90.00	58.00
82565	Workers' Compensation	15.00	2	30.00	87.79	57.79
92543	Workers' Compensation	89.00	1	89.00	136.80	47.80
92579	Medicare Rate	27.16	1	27.16	71.10	43.94
85014	Workers' Compensation	10.00	8	80.00	112.16	32.16
92556	Workers' Compensation	54.00	1	54.00	81.00	27.00
73060	Workers' Compensation	55.00	1	55.00	81.45	26.45
82947	Workers' Compensation	13.00	3	39.00	64.26	25.26
82043	Workers' Compensation	20.00	1	20.00	36.00	16.00
92587	Workers' Compensation	107.00	3	321.00	332.10	11.10
85610	Workers' Compensation	16.00	1	16.00	25.02	9.02
76020	Workers' Compensation	63.00	1	63.00	71.10	8.10
80184	Workers' Compensation	47.00	1	47.00	49.95	2.95
82040	Workers' Compensation	18.00	1	18.00	20.47	2.47
94760	Workers' Compensation	20.00	1	20.00	20.25	0.25
					Total	\$250,492.76

KANSAS DISABILITY DETERMINATION SERVICES CONSULTATIVE EXAMINATION COSTS

Fiscal Year 2000

CPT Code	Highest Allowable Fee Schedule	Highest Allowable Fee	Number of Exams	Amount Allowable	Amount KS-DDS Paid	Unallowable Costs
94010	Workers' Compensation	\$59.25	821	\$48,644.25	\$103,975.78	\$55,331.53
97750	Workers' Compensation	33.00	116	3,828.00	27,289.98	23,461.98
72100	Workers' Compensation	73.00	337	24,601.00	46,091.84	21,490.84
71010	Workers' Compensation	43.00	1008	43,344.00	56,909.01	13,565.01
73560	Workers' Compensation	54.00	244	13,176.00	26,655.70	13,479.70
95851	Workers' Compensation	27.75	101	2,802.75	7,849.65	5,046.90
73510	Workers' Compensation	65.00	95	6,175.00	10,855.87	4,680.87
94720	Workers' Compensation	60.75	82	4,981.50	9,403.72	4,422.22
80054	Workers' Compensation	29.00	102	2,958.00	6,941.98	3,983.98
92082	Workers' Compensation	54.75	179	9,800.25	13,511.72	3,711.47
73030	Workers' Compensation	59.00	57	3,363.00	6,014.31	2,651.31
71020	Workers' Compensation	55.00	181	9,955.00	12,497.81	2,542.81
93922	Workers' Compensation	127.50	56	7,140.00	9,653.78	2,513.78
73600	Workers' Compensation	50.00	49	2,450.00	4,770.84	2,320.84
73120	Workers' Compensation	45.00	40	1,800.00	3,883.47	2,083.47
82803	Workers' Compensation	53.00	20	1,060.00	2,325.11	1,265.11
72040	Workers' Compensation	65.00	22	1,430.00	2,684.02	1,254.02
92004 ³	Workers' Compensation	84.00	218	18,312.00	19,303.00	911.00
93000	Workers' Compensation	51.75	20	1,035.00	1,982.53	947.53
73620	Workers' Compensation	50.00	19	950.00	1,887.88	937.88
95819	Workers' Compensation	162.00	4	648.00	1,292.61	644.61
95900	Workers' Compensation	65.25	5	326.25	960.68	634.43
92557	Workers' Compensation	72.00	6	432.00	948.90	516.90
73100	Workers' Compensation	48.00	13	624.00	1,116.66	492.66
95860	Workers' Compensation	126.75	3	380.25	822.20	441.95
95904	Workers' Compensation	58.50	5	292.50	734.28	441.78
36415	Workers' Compensation	10.00	46	460.00	746.10	286.10
85031	Workers' Compensation	19.00	11	209.00	473.00	264.00
73070	Workers' Compensation	48.00	6	288.00	545.91	257.91
95930	Workers' Compensation	74.25	1	74.25	276.30	202.05
85651	Workers' Compensation	12.00	16	192.00	381.48	189.48
80185	Workers' Compensation	42.00	8	336.00	510.80	174.80
73550	Workers' Compensation	61.00	3	183.00	354.72	171.72
92507	Medicare Rate	46.25	8	369.96	536.00	166.04
94375	Workers' Compensation	58.50	2	117.00	268.00	151.00
73590	Workers' Compensation	57.00	7	399.00	549.20	150.20
72090	Workers' Compensation	88.00	3	264.00	397.30	133.30

³ Ibid

CPT Code	Highest Allowable Fee Schedule	Highest Allowable Fee	Number of Exams	Amount Allowable	Amount KS-DDS Paid	Unallowable Costs
76020	Workers' Compensation	\$63.00	3	\$189.00	\$318.27	\$129.27
73630	Workers' Compensation	58.00	2	116.00	245.00	129.00
92568	Workers' Compensation	29.25	3	87.75	216.00	128.25
92543	Workers' Compensation	21.75	1	21.75	147.74	\$125.99
80156	Workers' Compensation	42.00	6	252.00	377.68	125.68
72070	Workers' Compensation	72.00	3	216.00	341.64	125.64
73562	Workers' Compensation	63.00	2	126.00	244.80	118.80
80299	Medicare Rate	18.92	3	56.76	173.25	116.49
72110	Workers' Compensation	101.00	1	101.00	201.55	100.55
92582	Workers' Compensation	32.25	1	32.25	118.80	86.55
73060	Workers' Compensation	55.00	2	110.00	178.65	68.65
73110	Workers' Compensation	57.00	2	114.00	174.42	60.42
92567	Workers' Compensation	30.00	4	120.00	180.00	60.00
80164	Workers' Compensation	49.00	5	245.00	302.35	57.35
84132	Workers' Compensation	14.00	1	14.00	49.95	35.95
86430	Workers' Compensation	19.00	2	38.00	71.46	33.46
92555	Workers' Compensation	24.75	1	24.75	57.60	32.85
85014	Workers' Compensation	8.00	7	56.00	87.87	31.87
93350	Workers' Compensation	154.50	1	154.50	184.23	29.73
72170	Workers' Compensation	56.00	2	112.00	141.48	29.48
86038	Workers' Compensation	40.00	2	80.00	108.18	28.18
82247	Medicare Rate	6.94	6	41.64	68.00	26.36
73610	Workers' Compensation	58.00	1	58.00	81.90	23.90
82565	Workers' Compensation	15.00	2	30.00	50.65	20.65
80184	Workers' Compensation	47.00	2	94.00	109.30	15.30
81000	Workers' Compensation	10.00	1	10.00	25.20	15.20
85018	Workers' Compensation	8.00	1	8.00	21.50	13.50
92587	Workers' Compensation	107.25	1	107.25	118.80	11.55
82040	Workers' Compensation	18.00	1	18.00	28.80	10.80
82947	Workers' Compensation	13.00	2	26.00	30.60	4.60
72052	Workers' Compensation	103.00	1	103.00	106.38	3.38
82150	Workers' Compensation	22.00	1	22.00	23.85	1.85
92579	Medicare Rate	28.36	1	28.36	30.00	1.64
						Total \$173,804.06

Appendix E

AGENCY COMMENTS



SOCIAL SECURITY

MEMORANDUM

Refer to:S2D7

Date: September 24, 2002

To: Assistant Inspector General
For Audit

From: Regional Commissioner
Kansas City

Subject: Comments on Draft Audit of the Administrative Costs Claimed by the Kansas Disability Determination Services (A-07-02-22003)

Thank you for the opportunity to comment on this draft audit report. We agree with most of your audit conclusions and recommendations listed on pages 16 and 17 of the report. Our comments on each of the twenty recommendations are as follows:

1. We agree with your conclusion that the State of Kansas inappropriately charged SSA \$4,923,606 for Indirect Costs from FY 1998 through March 31, 2002. We also agree this amount should be recovered from the State.
2. We agree with your assessment that the amount of IT costs allocated to the DDS was not determined in accordance with the Cost Allocation Plan (CAP). As you pointed out on page 7 of the audit report, the 100% time study was never done. For this reason we cannot validate the accuracy of the \$435,052 charged to SSA. As the amount charged is consistent with the IT sampling performed by Kansas; we are considering it appropriate. Beginning with FY 2003, we have directed KS SRS to perform the necessary 100% time study of IT activities and calculate IT costs authorized by the approved CAP.
3. We agree that the KS-SRS CAPs for FYs 2001, 2002, and future years should be amended to reflect an equitable distribution of indirect costs to SSA. Additionally, we have concerns that SSA's interests are not adequately represented when allocation plans are negotiated because federal Indirect Cost negotiators represent only one federal agency, in this case DHHS. In view of the fact that CAPs and Indirect Cost Agreements are extremely complex, we suggest increased oversight by OIG to insure costs are distributed fairly and equitably among all agencies involved in the process.
4. We do not agree with your conclusions as outlined in **items 4, 5, and 6** regarding the reporting and reclassification of certain expenditures. We believe the State has been correctly reporting the payment of rent and other service agreements and purchases that cover a 1-year period. For example, during the fiscal year they paid rent as required by their lease. By doing this, their

actual expenditures for the fiscal year matched the total cash drawdowns by the State from the Automated Standard Application for Payments (ASAP) system maintained by the Treasury Department.

We do agree with your audit findings regarding the premature finalizing of the Form SSA-4513s before all fiscal year medical evidence obligations had been liquidated, and we will instruct the State to wait with closing out the fiscal year until all obligations have either been liquidated, or deobligated after a reasonable period of time has been allowed.

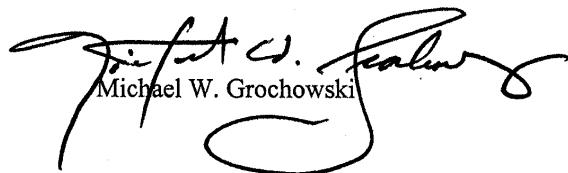
7. After consulting with Office of Disability (OD), we do not agree with your position that the DDS and KS-SRS are one and the same agency for purposes of allowing the DDS to use the parent agency's fee schedule and determining if those rates do not exceed "the highest rate paid by Federal or other agencies in the State for the same or similar type of service." Based on OD's interpretation, we believe that the DDS is in fact a separate agency, and is entitled to use the KS-SRS fee schedule, which was created independently of the DDS. We will work with you on resolving this area of disagreement. If OD's position is correct, the \$591,340 overpayment is a moot issue. If the final outcome is that the DDS and KS-SRS are the same agency, we believe the overpayment of \$591,340 should be waived. These funds were used in good faith by the DDS to process disability claims, with no intent to avoid regulations which prohibited this. The DDS has in fact changed its policy and is now using the Medicaid Fee Schedule for payment.
8. This item is related to item 7 and as we previously stated, any overpayment should be waived.
9. This item is related to items **7 and 8**. We believe the DDS is a separate agency from the KS SRS and are therefore in compliance with 20 Code of Federal Regulations 404.1624 and 416.1024 which state "The rates may not exceed the highest rate paid by Federal or other agencies in the state..."
10. We concur with your findings in items **10, 11, and 12**. These three items deal with the issue of payment for Non-SSA Work under the principles set out in the MOU in effect since August 1974. We agree the State should reimburse SSA for \$142,140 and will instruct them to recalculate the non-SSA costs for FY 2001 and FY 2002 in accordance with the MOU, and make the necessary adjustments to the obligations reported for those years on the SSA-4513s. The Office of Disability (OD) will provide model language to use in developing updated MOUs across the country for DDSs involved in processing Non-Federal workloads. We will pursue this issue with OD and immediately begin negotiations for an updated MOU with the State of Kansas.
13. We concur with your findings in items **13, 14, and 15**. These three items deal with Communication Costs and seek refunds totaling \$15,134. We will request this refund from the State and ask the DDS to develop and implement procedures for reviewing long distance and cellular telephone charges that ensure timely payment of bills and reimbursement for any inappropriate calls. Telephone and data connections at the Docking State Office Building account for \$11,991 of the total. We will instruct the DDS to request reimbursement for those charges from the State Division of Information Systems and Communications (DISC), and to develop procedures to review the propriety of communication charges to the DDS by other Kansas State Agencies.

16. We concur with your findings for items **16 and 17**. We will ask the DDS to obtain a refund from their landlord for \$2,517 for excess utility costs, and review future utility charges from the landlord to insure they are billed for their appropriate share.
18. We agree with your findings with regard to the State's cash draw procedures. The State will be required to develop and implement procedures to follow when accessing the Treasury Department's ASAP system for cash drawdowns. The regional office will review these procedures prior to implementation.
19. We agree with your finding that the primary timekeeper should not keep her own time and leave records. The DDS has already established an alternate timekeeper to maintain the primary timekeeper's time and leave records.
20. We concur with your recommendations regarding the improvement of the State's computer access controls. We will remind the DDS to follow their procedures for deactivating terminated employee's computer access privileges. The DDS has obtained software to require a password change on their Wang system every 30 days. We have asked the DDS to submit a written procedure for granting the appropriate level of computer access to each employee.

In summation, we intend to ask for the return of the following amounts from the State of Kansas:

Indirect Costs	\$4,923,606
Non-SSA Case Processing Costs	\$ 142,140
Communications Costs	\$ 15,134
Utility Costs	\$ 2,517
Total to be Refunded to SSA	\$5,083,397

We appreciate your efforts to improve DDS procedures and we will closely monitor the appropriate changes to ensure completion. If you need more information about these items, please call Kent Robbins at (816) 936-5690.



Michael W. Grochowski

Attachment

CC: DDS Administrator, Kansas
 Acting Associate Commissioner, Disability
 Acting Associate Commissioner, OFPO
 Secretary, Kansas Department of SRS

BILL GRAVES, GOVERNOR OF THE STATE OF KANSAS



KANSAS DEPARTMENT OF SOCIAL
AND REHABILITATION SERVICES

915 SW HARRISON STREET, TOPEKA, KANSAS 66612

JANET SCHALANSKY, SECRETARY

September 12, 2002

Mr. Michael W. Grochowski
Regional Commissioner, Social Security Administration
Federal Office Building
601 E. 12th Street
Kansas City, MO 64106-2898

RE: Financial Audit of Administrative Costs Claimed by the Kansas DDS

Dear Mr. Grochowski:

Thank you for giving us this opportunity to respond to the audit report findings. The following are our comments and concerns:

INDIRECT COSTS

Issue: KRS Central Office costs were not allocated to benefiting KRS field offices and Client Assistance Program.

The allocation of KRS Central Office costs to its subordinate administrative units is in accordance with the approved cost allocation plan, for the years cited by the audit and is in compliance with OMB Circular A-87. It clearly states in the KS-SRS Cost Allocation Plan that the KRS Central Office costs will be allocated between its subordinate units based on FTEs. Enclosed are the pertinent pages from the FY2000 cost allocation plan which describe the approved allocation method for KRS Central Office. Page C1-34 defines the Rehabilitation Services Administration Central Office sub-program 66110 and the allocation basis, which is Worksheet II, Table D-2 of the plan. Page D-3 describes the distribution method used for Worksheet II, Table D-2, which is FTE staff positions as taken from SHaRP, the state personnel system. Page C1-37 describes the sub program 68110, Disability Determination and Referral Services Administration. Page C1-37 states that this sub-program is for all expenditures related to the administration of the Disability

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Determination Referral Services program, which includes all the FTEs assigned to the Disability Determination Referral Service. The FTE staff positions assigned to this PCA in SHaRP is what was used in allocating the KRS Central Office costs. We are adding the three Client Assistance Program positions (2.5 FTE) into the CAP to more accurately reflect the benefiting programs.

This method of allocating KRS Central Office costs is fair and equitable as it assigns central office costs to the supported programs. This is the same method used to allocate the central office costs for the other KS-SRS Central Office Divisions. It is not appropriate to allocate the central office costs in Table D-2 to the field staff because they are already considered in a broad cost pool and their costs are allocated by the Random Employee Sampling Technique.

Allocation by the proposed method in the audit would result in a duplication of costs for the KRS personnel employed in the field offices. The allocation of KRS Central Office costs is a result of including REST data gathered in the field offices and other tables in the CAP such as D-2. The REST data provides a statistically valid sample of the percent of time area office employees are spending on the various programs of KS-SRS.

KS-SRS believes that the indirect costs for the years audited were calculated correctly, however, we are willing to discuss with you how best to allocate these costs in the future.

Issue: State Medical Institutions are not allocated for the central office expenses which they benefit.

It is not because of the level of service provided to the State Medical Institution that they are not included in the KS-SRS cost allocation plan, but because of the service delivery system. One of the major differences between the State Medical Institutions and the rest of KS-SRS is the State Medical Institutions' status as a provider of services. Because the State Medical Institutions are both Medicare and Medicaid providers, they are paid a per day rate. A cost report is filed and reconciled with existing expenditures to determine if the correct mix of federal and state funds were expended. A part of the cost report includes the *home office cost report*. It is through this *home office cost report* that KS-SRS indirect expenses are charged to the State Medical Institutions, not directly through the KS-SRS cost allocation plan. In Table A of the KS-SRS cost allocation plan, expenses such as Executive, Human Resources, etc. are charged to HCP or formerly to MHRS in the old organizational structure. In the *home office cost report* some of these indirect expenditures, along with other

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allowable expenditures in HCP, are charged back through their daily rate. Though not directly charged in the KS-SRS cost allocation plan, the central office costs are included in the State Medical Institutions' daily rate. Including the State Medical Institution's FTE in the KS-SRS CAP would violate A-87 principles and would charge these indirect costs to the federal government twice.

Issue: SSA should instruct KS-DDS and KS-SRS to determine the proper amount of allocable information technology costs in accordance with the Cost Allocation Plan (CAP).

Some on-contract ITS staff who are providing work through a state contract were not sampled. Corrective action has been taken to resolve this matter and future reports will reflect a 100% time study of ITS direct service personnel as indicated in the CAP. We can not recalculate the IT expenses allocated, but believe the results to be representative of the overall work provided to KS-DDS and the rest of KS-SRS.

INCORRECT FISCAL YEAR PAYMENTS

Issue: SSA should instruct KS-DDS and KS-SRS to reclassify \$1,106,542 of expenditures incorrectly reported on the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) in the wrong FYs.

Federal awards going back five years, to FFY98, will potentially need to be reopened and adjusted to allow corrections to the Federal reports. Federal reports for the period will also have to be reopened and re-filed. Since these were acceptable reimbursements, we would ask that this request be waived.

Issue: SSA should instruct KS-DDS and KS-SRS to determine if expenditures reported on the Form SSA-4513s for FY 1998 through 2002 were claimed in the proper FY and reclassify expenditures as appropriate.

We believe the effort to analyze and reclassify expenditures beyond rent and CE/MER costs would be unduly burdensome and the result would not provide data more usable to KS-DDS and SSA.

The auditors state the current reporting of rent "will result in an inaccurate reporting of FY expenses ... every FY". Technically this is true but only FFY98 was markedly distorted, since it was the year when rent payments switched from being paid monthly to annually. To correct this inaccuracy would require changing to a monthly pay

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lease, provided the landlord would allow this. KS-DDS might be forced to move if the landlord would not accept the month to month lease, or at least pay more for the monthly payment schedule.

The recording of all CE/MER costs in the FFY they were incurred may require keeping the old FFY open for up to a year. Judging by the small amount of the finding (less than one percent of total CE/MER costs) the effort for technical precision, in this case, might be better utilized elsewhere.

Software maintenance agreements would have to be changed to follow the Federal FY or to a monthly payment schedule. The result might be increased cost. Since the annual cost for these contracts remains fairly constant, the effect of this change on annual reported expenditures, from year to year, would be negligible.

The audit report states "shifting funds between FY's prevents SSA from accurately monitoring the status of States' expenditures and unexpended appropriations." We do not believe that these inaccuracies, since they occurred consistently over the years, would hinder SSA in its mission to monitor or analyze KS-DDS spending. Also, during this time, SSA required a quarterly "CEMS" report to compare operational efficiency between DDS agencies. This report isolated three months of expenditure data and appears to be specifically designed to eliminate the effect of annual payments and other anomalies. It would seem the SSA could use this system, contrary to the audit report, "to manage the allocation and use of budgeted funds among States."

Issue: SSA should instruct KS-DDS and KS-SRS to establish procedures for reporting expenditures in the correct FY.

We agree in principle with the goal of reporting expenditures in the appropriate FY.

The changes necessary to implement new reporting procedures, however, would be significant. The State would need to set up a second set of fund/indexes and program codes, to account for receipts and expenditures of a second Federal fiscal year. DDS staff would have to split payments (phone bills, travel reimbursements, contracted typing and staff, etc.) between FFY's before submitting them for payment. The DDS WANG system would need to be upgraded to use two program codes, one for each FFY. The State payroll system (SHaRP) is currently unable to divide payroll costs precisely at the end of the FFY. Since the SHaRP system is not controlled by KS-DDS or KS-SRS, it is unclear whether changes would be implemented simply at our request.

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CONSULTATIVE EXAMINATION COSTS

Issue: KS-DDS reimbursed certain hospitals, clinics, and individual physicians for CEs at rates of payment that exceeded the highest rate paid by Federal or other agencies in the State.

KS-DDS respectfully requests forgiveness of the amount of these findings for all prior years and through June 2002. KS-DDS has paid for certain consultative examinations using the fee schedule established by KRS for many years and since prior to the last OIG audit of the KS-DDS (3/95). The 3/95 OIG audit did not challenge this policy/procedure. Therefore, KS-DDS believed that it was in compliance with 20 CFR 404.1624 & 416.1024. Since OIG has indicated that this policy/procedure is no longer acceptable, the KS-DDS has changed its policy regarding this issue. The KS-DDS will comply with the above referenced CFR with the new understanding that no KS-SRS agency may be used as an "other state agency". This change of understanding was implemented on July 1, 2002. Please note that these examinations were purchased in good faith to support disability determinations as required by the Social Security Administration.

NON-SSA WORK

Issue: KS-SRS did not calculate non-SSA work costs in accordance with the terms agreed upon by KS-SRS and SSA.

The State of Kansas does not contest this finding and will repay said finding. KS will also adjust form SSA 4513 for FFYs 2001-2002 to reflect this finding. If any difference is calculated in the amount owed due to prior payment of the MOU in the CAP, explanation will accompany repayment. The State of Kansas allocated SSA vs. non-SSA work by first examining what expenditures were actually spent on SSA work vs. non-SSA work. A percentage was determined and that percentage was then used to allocate both direct and indirect costs of DDS administration between SSA and non-SSA. We feel the method used was an accurate representation of the costs incurred. The State of Kansas formally requests renegotiation of this MOU during this fiscal year, as the 1974 MOU is outdated.

ALL OTHER NONPERSONNEL COSTS

Issue: Communication costs were found to be unallowable.

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The State of Kansas agrees with this finding and will refund \$15,134 in excess communication costs. The State of KS and the KS-DDS are further refining procedures to review propriety of communication costs from all sources.

Issue: Office utility costs were found to be unallowable.

KS-DDS pays utility costs as billed per the lease agreement. However, the State of Kansas does not contest this finding. The KS-SRS Lease Administrator will contact the landlord, White Lakes Center, regarding this issue. Recovery may be difficult because White Lakes Center has changed owners since this error occurred. Repayment will be made regardless of recovery. The situation that caused this error is not likely to occur in the future, as the space in question is filled and is being appropriately billed. Should that space be vacated, KS-DDS will now know to question any increase in utility fees.

CASH MANAGEMENT

Issue: SSA should instruct KS-DDS and KS-SRS to establish cash draw procedures that associate FY reporting period cash draws with the same FY expenditures.

We agree in principle with the goal of reporting expenditures in the appropriate FY.

However, the changes necessary to implement new reporting procedures would be significant. The State would need to establish additional sets of fund numbers/index numbers/budget units/program codes for each federal fiscal year. DDS staff would have to split payments (phone bills, travel reimbursements, contracted typing and staff, etc.) between federal fiscal years before submitting them for payment. The DDS WANG system would need to be upgraded to use multiple program codes (for each fiscal year). The State payroll system (SHaRP) is currently unable to divide payroll costs precisely at the end of the FFY. Since the SHaRP system is not controlled by KS-DDS or KS-SRS, it is unclear whether changes would be implemented at our request.

Because the payment funding structures dictate the cash draws that are necessary, the cash management group would be unable to appropriately make draws related to expenditures during concurrently-funded fiscal years. Currently, the cash management unit reconciles reported expenditures to cash draws for each federal grant award.

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SEGREGATION OF DUTIES

Issue: The KS-DDS timekeeper maintains her own time and attendance records.

KS-DDS timekeepers will no longer input their own leave records. Due to staffing constraints it is not always possible to have someone else in-house input her records. For this reason, KS-DDS has contacted KS-SRS Human Resources who has agreed to input the time and leave records when no KS-DDS alternative recorder is available.

ACCESS CONTROLS

Issue: Access control weaknesses were found in deactivating terminated employees, changing of passwords every 30 days and not limiting user access to the minimum necessary to perform job duties.

The KS-DDS now has procedures that allow for immediately deactivating computer access privileges for terminated employees, for requiring employees to change passwords every 30 days and for limiting employees' system access to the minimum necessary to perform their jobs. Specifically, automation has been accomplished such that failure to sign on to the WANG system for 30 days results in automatic termination of the sign on. Other deactivations, which require manual actions, are the responsibility of one member of the IT staff with a second member providing 100% backup. It should be noted that the finding indicating that the KS-DDS does not require passwords to be changed at least every 30 days is misstated. With the assistance of The Regional Office, the KS-DDS purchased a software package that requires users to change passwords every 30 days. Prior to the purchase of this software, KS-DDS, like most states, was not directed to mandate 30-day password changes on the WANG system.

Should you have any questions, please feel free to contact Connie Wold at (785) 267-4440 ext. 213 or J.G. Scott at (785)296-6216.

Sincerely,

by Lanna Howard
Candy Shively
Candy Shively
Deputy Secretary,
SRS Integrated Service Delivery

**Social and Rehabilitation Services
Cost Allocation Plan**

Initial Date: 07/01/93

Revised Date: 01/01/95

SUB-PROGRAM 64150

TITLE: Foster Care Administration - IV-E

DESCRIPTION: IV-E related administrative costs, including upgrade of current information systems to comply with AFCARS (Adoption and Foster Care Analysis Reporting System).

OBJECT CODES: 2000's, 3000's & 4000's

COST ALLOCATION BASIS: Worksheet III, Column 7E

Initial Date: 07/01/94

Revised Date: 01/01/99

SUB-PROGRAM 64812

TITLE: Child Protective Services - Medical Exams

DESCRIPTION: Expenditures related to initial medical exam for children reported as being at risk of abuse or neglect.

OBJECT CODES: 5000'S

COST ALLOCATION BASIS: Worksheet III, Column 111 [no indirects]

Initial Date: 07/01/95

Revised Date:

SUB-PROGRAM 64925

TITLE: Cost Allocation Technical Assistance

DESCRIPTION: Technical assistance to qualifying agencies, such as, Indian Health Tribal Social Services organizations, funded consistent with commission cost allocation.

OBJECT CODES: 5000's

COST ALLOCATION BASIS: Worksheet III, Schedule 2a [no indirects]

Initial Date: 07/01/91

Revised Date:

SUB-PROGRAM 66110

TITLE: Rehabilitation Services Administration - Central Office

DESCRIPTION: Responsible for administration of the Rehabilitation Services Commission.

OBJECT CODES: All except 5000's

COST ALLOCATION BASIS: Worksheet II, Table D-2

**Social and Rehabilitation Services
Cost Allocation Plan**

Initial Date: 07/01/91

Revised Date:

SUB-PROGRAM 68110

TITLE: Disability Determination and Referral Services (DDRS) Administration

DESCRIPTION: All expenditures related to the administration of the Disability Determination and Referral Services Program.

OBJECT CODES: All

COST ALLOCATION BASIS: Worksheet IV, Schedule 13

Initial Date: 07/01/91

Revised Date: 01/01/99

SUB-PROGRAM 68130

TITLE: DDSR - Medicaid

DESCRIPTION: All expenditures related to the purchase of professional examinations to determine disability for non-eligible SSA clients.

OBJECT CODES: 2700's & 5500's

COST ALLOCATION BASIS: Worksheet III, Column 111 [no indirects]

**Social and Rehabilitation Services
Cost Allocation Plan**

Worksheet II - page 2 of 2

Table B - Area Office Headcount

Allocates area office administrative costs to field staff. This distribution is based upon field staff headcount. Headcount is determined by using information taken from SHaRPs which indicates the number of FTE field staff positions. Data acquired from the R.E.S.T. time study is used to determine the percentage of costs to be allocated to each reimbursement category.

Table D - Distribution of Central Office Costs

Table D1

Distributes central office costs for PCA 61110, MHDD Administration, to PCA 61210, Mental Health Administration, and PCA 61310, Developmental Disabilities Administration, using headcount as a distribution method. Headcount is determined by using information taken from SHaRPs which indicates the number of FTE staff positions.

Table D2

Distributes central office costs for PCA 66110, Rehabilitation Services Administration - Central Office, to PCAs 66310, CDC - Salina, 66410, CDC - Topeka, 66510, Deaf and Hard of Hearing Administration, 67110, Blind Services Administration and 68110, Disability Determination and Referral Services Administration, using headcount as a distribution method. Headcount is determined by using information taken from SHaRPs which indicates the number of FTE staff positions.

Table D3

Distributes central office costs for PCA 51100, CFP Admin - Management & Operations to PCAs 52100, CFP Admin - Child Care & Early Childhood Development, 53100 CFP Admin- Child Protective Services/Family Support, 54100 CFP - Admin - Reintegration/Foster Care, 55100 CFP - Adoption/Alternative Permanencies, using headcount as a distribution method. Headcount is determined by using information taken from SHaRPs which indicates the number of FTE staff positions.

Appendix F

OIG Contacts and Staff Acknowledgments

OIG Contacts

William Fernandez, Director, Western Audit Division, (510) 970-1739

Mark Bailey, Deputy Director, (816) 936-5591

Acknowledgments

In addition to those named above:

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Kenneth Bennett, Senior Auditor

Sherry Colwell, Senior Auditor

Richard Reed, Auditor

Kim Beauchamp, Writer-Editor

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Ranking Minority Member, Senate Special Committee on Aging	1
President, National Council of Social Security Management Associations, Incorporated	1
Treasurer, National Council of Social Security Management Associations, Incorporated	1
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President, Federal Managers Association	1
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