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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**ADMINISTRATIVE COSTS  
CLAIMED BY THE SOUTH DAKOTA  
DISABILITY DETERMINATION  
SERVICES**

**February 2005**

**A-15-03-13060**

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**AUDIT REPORT**

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## **Mission**

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

## **Authority**

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

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

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**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.**



## SOCIAL SECURITY

### **MEMORANDUM**

Date: February 25, 2005

Refer To:

To: James Everett  
Regional Commissioner  
Denver

From: Inspector General

Subject: Administrative Costs Claimed by the South Dakota Disability Determination Services  
(A-15-03-13060)

The attached final report presents the results of our audit. Our objectives were to:

- determine whether the aggregate of the Social Security Administration (SSA) funds drawn down agreed with total expenditures for Fiscal Years 2000 through 2002;
- determine whether costs, claimed by the South Dakota Disability Determination Services on its *State Agency Report of Obligations for SSA Disability Programs* for the period October 1, 1999 through September 30, 2002, were allowable and properly allocated;
- evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as the draw down of SSA funds; and
- complete a limited general controls review.

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



Patrick P. O'Carroll, Jr.

Attachment

cc:

Betty Oldencamp, Secretary, South Dakota Department of Human Services  
Dave Tschetter, Administrator, South Dakota Disability Determination Services  
Lenore Carlson, Associate Commissioner, for Office of Disability Determinations  
Jeff Hild, Associate Commissioner for Office of Financial Policy and Operations  
Candace Skurnik, Director, Audit Management and Liaison Staff

# Executive Summary

## **OBJECTIVES**

Our objectives were to:

- determine whether the aggregate of the Social Security Administration (SSA) funds drawn down agreed with total expenditures for Fiscal Years 2000 through 2002;
- determine whether costs, claimed by the South Dakota Disability Determination Services (SD-DDS) on its *State Agency Report of Obligations for SSA Disability Programs* for the period October 1, 1999 through September 30, 2002, were allowable and properly allocated;
- evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as the draw down of SSA funds; and
- complete a limited general controls review.

## **BACKGROUND**

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

## **RESULTS OF REVIEW**

SD-DDS generally complied with laws, regulations, policies, and procedures governing the recording and reporting of expenditures and obligations. However, we identified three issues related to consultative examinations (CE). Specifically, SD-DDS: (1) paid \$158,513 for CE fees in excess of its fee schedule; (2) paid physicians for unbilled services and for preparing narrative reports that should have been included as part of the examination; and (3) did not limit the amount paid for psychiatric examinations. We also identified weaknesses in physical security that risk unauthorized access to sensitive claims system data and/or damage to hardware and software.

## **CONCLUSIONS AND RECOMMENDATIONS**

Our review of administrative costs disclosed that SD-DDS needs to improve its adherence to SSA's policies and procedures for the purchase of CEs. In addition, SD-DDS needs to improve the physical security of its computer room and ensure the safety of its staff. In the body of this report we make several recommendations regarding CE purchase costs, internal controls and systems security.

### **SSA COMMENTS**

SSA's Denver Regional Office generally agreed with our recommendations.

### **SOUTH DAKOTA DEPARTMENT OF HUMAN SERVICES COMMENTS**

The South Dakota Department of Human Services (SD-DHS) agreed with three of the seven recommendations directed toward the DDS. SD-DHS did not agree with two of our recommendations and did not respond to two recommendations.

### **OIG RESPONSE**

Due to limitations in the data file provided by SD-DDS, we could not substantiate all of SD-DHS' comments. As such, we revised one of our recommendations to have SSA staff work with SD-DHS to determine the validity of the questioned costs and seek reimbursement, if appropriate.

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# *Introduction*

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## **OBJECTIVES**

Our objectives were to:

- determine whether the aggregate of the Social Security Administration (SSA) funds drawn down agreed with total expenditures for Fiscal Years (FY) 2000 through 2002;
- determine whether costs, claimed by the South Dakota Disability Determination Services (SD-DDS) on its *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for the period October 1, 1999 through September 30, 2002, were allowable and properly allocated;
- evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as the draw down of SSA funds; and
- complete a limited general controls review.

## **BACKGROUND**

The Disability Insurance (DI) program was established in 1956 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.

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, or other responsible jurisdiction, according to Federal regulations.<sup>1</sup> 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, 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.

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<sup>1</sup> 20 C.F.R. part 404, subpart Q, and part 416, subpart J (April 2003).

Each year, SSA approves a DDS budget. Once approved, the DDS can withdraw Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments 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.<sup>2</sup> At the end of each fiscal quarter, each DDS submits to SSA a Form SSA-4513 to account for program disbursements and unliquidated obligations.

The South Dakota Department of Human Services (SD-DHS) is the parent agency for the SD-DDS. Parent agencies, such as the SD-DHS, often provide administrative services (such as accounting, purchasing, and personnel) to the State designated DDS.

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<sup>2</sup> 31 C.F.R. part 205 (May 2004); and Pub. L. No. 101-453 § 6503, 31 U.S.C. § 6503 (2004).

# **Results of Review**

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SD-DDS generally complied with laws, regulations, policies, and procedures governing the recording and reporting of expenditures and obligations. However, we identified three issues related to consultative examinations (CE). Specifically, SD-DDS: (1) paid \$158,513 for CE fees in excess of its fee schedule; (2) paid physicians for unbilled services and for preparing narrative reports that should have been included as part of the examination; and (3) did not limit the amount paid for psychiatric examinations. We also identified weaknesses in physical security that risk unauthorized access to sensitive claims system data and/or damage to hardware and software.

## **CONSULTATIVE EXAMINATION PAYMENTS**

Federal regulations stipulate the rate paid for CEs may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar type of service.<sup>3</sup> In addition, SSA's Program Operations Manual System (POMS) states that the DDS will consider its fee schedule as a maximum payment schedule.<sup>4</sup> We determined only 39 of the 97 CE transactions examined were paid in accordance with the SD-DDS fee schedule. For the remaining 58 transactions, SD-DDS paid an amount in excess of its fee schedule, may have paid for the same services twice, or failed to limit the number of hours that could be billed for performing psychiatric examinations.

## **PAYMENTS ALLOWED**

The SD-DDS fee schedule and South Dakota Administrative Rule 67:16:02 limit the amount paid for CEs.<sup>5</sup> The SD-DDS fee schedule establishes the amount paid for performing CEs. However, South Dakota's Administrative Rule establishes the fees paid by agencies in the State for the same or similar type of service. Physicians were paid in excess of the amount allowed by the SD-DDS fee schedule and Administrative Rule for certain current procedural terminology (CPT) codes.<sup>6</sup> The SD-DDS needs to update its fee schedule to incorporate the higher payment amounts allowed under the Administrative Rule.

CE purchases can be medical examinations, x-rays or laboratory procedures. Our analysis of the CE data file showed that CE payments to physicians for medical examinations exceeded the amount allowed by both the SD-DDS fee schedule and the South Dakota Administrative Rule.

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<sup>3</sup> 20 C.F.R. § 404.1624.

<sup>4</sup> SSA, POMS DI 39545.210.

<sup>5</sup> The Administrative Rules are the State of South Dakota's regulations. Rule 67:16:02 establishes maximum payments for physicians' services.

<sup>6</sup> The CPT code is a 5-digit code established by the American Medical Association, which simplifies the reporting of services performed by physicians.

We analyzed 97 CE sample invoices and found there were 31 instances where physicians were paid in excess of the amount authorized by the SD-DDS fee schedule. We then electronically compared all 16,480 CE transactions for FYs 2000 through 2002 (by CPT Code) to the amounts allowed by the SD-DDS fee schedule and South Dakota Administrative Rule 67:16:02. We identified 2,470 CE payments for medical examinations that exceeded the maximum amount allowable by the fee schedule. The excess payments amounted to \$158,513 as follows:

<b>FY</b>	<b>CE Transactions</b>	<b>Amount Paid</b>	<b>Number of Excessive Payments</b>	<b>Amount Overpaid</b>
2000	3,537	\$311,237	513	\$30,738
2001	6,190	\$516,189	1,016	\$60,354
2002	6,753	\$599,923	941	\$67,421
<b>Total</b>	<b>16,480</b>	<b>\$1,427,349</b>	<b>2,470</b>	<b>\$158,513</b>

SD-DDS did not have the necessary internal controls in place to ensure that its fee schedule and the Administrative Rule were used to limit CE payments.

We contacted the Denver Regional Office (RO) to determine if SSA was aware that payment for the CEs exceeded the SD-DDS fee schedule. The RO advised us that it allowed the payments to exceed the SD-DDS CE fee schedule because it believed the State followed the Administrative Rule. SSA's RO should monitor SD-DDS payments for CEs to ensure that payment is in accordance with the fee schedule. The RO should also work with SD-DDS to update the fee schedule to reflect the amounts authorized by the South Dakota Administrative Rule.

## **PAYMENTS FOR NARRATIVE REPORTS**

We found that for 27 of the 97 sample CE invoices SD-DDS paid physicians \$25 for preparing narrative reports (CPT code 99080). The remaining 70 CE sample invoices contained charges for other consultative services. We determined that the physicians were paid by SD-DDS for the 27 sample CEs for preparing narrative reports which may have already been paid for as part of the CE costs.

Analysis of the invoices showed that in 11 of the 27 cases with narrative reports, the physicians charged for performing a consultation and preparing a narrative report. A consultation is a type of service provided by a physician whose opinion or advice regarding evaluation and/or management of a specific problem is requested by another physician or other appropriate source. The consultant's opinion and any services that were ordered or performed must be documented in the patient's medical record and communicated by written report to the requesting physician or other appropriate source. We believe that physicians may have been overpaid in all 11 instances because the CPT code billed already required that a written report be prepared as part of the service provided. Consequently, the payments for the narrative reports may represent a second payment for the same service.

For the other 16 of the 27 invoices, we determined SD-DDS paid physicians for preparing a narrative report even though the physicians had not billed for them. Specifically, the physicians' invoices did not contain a charge for the narrative report but the SD-DDS payment voucher reflected a payment for their preparation. We determined these 16 payments were unsupported costs and should not have been paid.

Because the claim folders were no longer at the SD-DDS, we were unable to have SD-DDS show us what information was in the physicians' narrative reports that were beyond the requirements of a normal consultation report. As a result, we were unable to confirm the appropriateness of the payments. Our analysis of the FYs 2000 through 2002 CE data file showed there were 3,018 payments for narrative reports valued at \$75,450.

SSA's Denver RO should:

- work with SD-DDS to analyze the narrative report payments to determine if payments were appropriate; and
- instruct SD-DDS to cease paying for unbilled services.

## **MAXIMUM FEE PAYABLE**

The SD-DDS needs to modify its current fee schedule to establish maximum fees payable for those CPT codes where payment is based on an hourly rate. For example, CPT codes 96100 and 90830 cover multiple types of mental examinations and psychological testing. The amount of payment to medical providers for this CPT code is determined by multiplying the number of hours billed by a fixed hourly rate. We found 14 instances of CEs using CPT codes 96100 and 90830 in our sample of 97 CE invoices. While the SD-DDS fee schedule set an hourly rate, we found no evidence that SD-DDS limited the number of hours that could be billed. As a result, there was no limit to what the physician could charge for each of the psychiatric examination types. During the audit period, there were 1,968 transactions, valued at \$480,495, where payment was based on an hourly rate.

SSA's Disability Determination Services Administrators' Letter No. 501, dated March 12, 1999, provided DDS administrators with informational guidance as to the use of CPT codes using hourly rates. Specifically, Attachment 5, *General Guidance for Mental Exams and Psychological Testing*, provides an example showing how the DDS can use the Medicare hourly rate fee, such as CPT code 96100, multiplied by a pre-determined number of hours to administer each test type, to establish a maximum fee payable for each test.

We contacted SSA's Office of Disability (OD) to determine its basis for establishing the time required to perform the various tests cited in Attachment 5. OD advised us the time allowed to perform these tests was based on the conventional wisdom of the workgroup - consisting of SSA and DDS managers - and confirmed the intent was to assist the DDSs in establishing a maximum fee payable for the various mental examinations and psychological tests.

Our review showed SD-DDS made no attempt to establish a maximum fee payable. Charges for services rendered under CPT code 96100 were determined by multiplying the number of hours billed by a fixed hourly rate of \$47.30. This was the hourly rate allowed by both the SD-DDS fee schedule and the State's Administrative Rule.

We believe the lack of a maximum for hours billed may result in unreasonable payments for some CEs. SSA's RO should work with SD-DDS to establish the maximum numbers of hours allowed for performing psychological tests using SSA's Administrators Letter No. 501 as a guide.

## **INTERNAL CONTROLS**

We examined the internal controls to assess whether they safeguarded assets, improved the efficiency and effectiveness of operations, and ensured reliability and completeness of financial information.

We believe SD-DDS needs to initiate corrective action to address the following internal control deficiencies:

- Medical Consultants were working without benefit of a signed contract showing terms of employment, rate of pay, and hours to be worked. Medical Consultants recorded their scheduled work hours directly onto a monthly timesheet that was used for billing purposes.
- The SD-DDS did not maintain inventory lists as required by Federal regulations.<sup>7</sup> The State is responsible for maintaining all property provided by SSA for performing the disability determination function. The State is required to perform a periodic inventory of SSA distributed equipment. Maintaining such records will facilitate the annual inventories and could help to detect any stolen or misplaced equipment.

SD-DDS needs to implement sufficient controls to ensure that: Medical Consultants are paid only for hours actually worked, individuals with procurement authority are not making unauthorized purchases, and SSA furnished equipment has not been stolen or misplaced.

## **GENERAL CONTROLS**

We performed a limited general control review of the physical security and safety of the SD-DDS and identified several areas where SD-DDS could improve its general controls by following the SSA Disability Determination Services Security Document. Specifically, we found circumstances where unauthorized individuals could gain access to the SD-DDS computer room. As a result, sensitive SSA data were subject to possible improper disclosure and hardware and software were subject to deliberate or accidental damage.

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<sup>7</sup> 20 C.F.R. § 404.1628.

We also found that SD-DDS had not held required emergency evacuation drills. We believe it is prudent to protect employees from harm as much as reasonably possible.

## ACCESS TO SSA DATA

We identified several security issues relating to the SD-DDS computer room. The computer room security weaknesses included a door that was not routinely locked, the janitorial staff was not supervised by SD-DDS managers, and the computer room was easily identifiable because the outer door had a glass insert. Also, we did not verify the existence or operational status of an intrusion detection device for the computer room.

One SD-DDS computer room door opened to non-DDS office space and was kept unlocked. This door's alarm was not activated during working hours. Management indicated the door was kept unlocked because it was to be used as an emergency exit for the State Department of Labor (DOL) computer staff. The unlocked door gives unauthorized individuals open access to the SD-DDS computer room's sensitive data, hardware, and software.

SSA's *Disability Determination Services Security Document* states, "Access to the computer room should be restricted by management.... The room should be locked at all times."<sup>8</sup> We analyzed the building layout and determined the emergency exit could be relocated to non-DDS space and, thus, maintain the security for the computer room.

Also, the SD-DDS office space was cleaned during non-working hours. According to SD-DDS management, the janitorial supervisor—who was not an SD-DDS employee and was not authorized access to sensitive SSA data himself—disabled the alarm system and was to accompany the workers as they cleaned the office.

SSA's *Disability Determination Services Security Document* states the office should be cleaned during work hours.<sup>9</sup> If daytime cleaning is not possible, extra care should be taken to ensure sensitive and Privacy Act related documents (e.g. medical reports and folders) are kept secure. These SSA guidelines also state that DDS management should monitor the cleaning of the office space.

Additionally, the primary door to the computer room was not a solid wood core door. It had glass inserts. Individuals passing by could look in the window and identify the room as containing computer data, hardware and software. SSA's *Disability Determination*

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<sup>8</sup> DDS Security Document, Chapter VII Physical Security, Internal Office Security, page 21 dated July 30, 2001 and the superseding Chapter VII, Physical Security, Internal Office Security, page 36, dated September 2003.

<sup>9</sup> DDS Security Document, Chapter VII Physical Security, Access Controls, page 22, dated July 30, 2001 and the superseding Chapter VII, Physical Security, Access Controls, page 38, dated September 2003.

*Services Security Document* requires the computer room door be of solid wood core construction and kept locked at all times.<sup>10</sup>

Lastly, SSA's *Disability Determination Services Security Document* states the walls of computer rooms should have slab-to-slab construction to prevent unauthorized entry or, as revised in September 2003, the computer room must be made secure by installing chain link fences, heavy wire mesh, or motion sensor devices in the space between the false ceiling and the true ceiling of the facility.<sup>11</sup> The walls of the computer room did not extend beyond the suspended ceiling. Subsequent to our visit, SD-DDS management indicated to us there was an intrusion detection system installed in the ceiling area to detect unauthorized access. However, we did not verify the system's existence or whether it was operational.

We believe the above physical security weaknesses risk unauthorized disclosure of sensitive SSA data as well as the loss of system hardware and software.

SD-DDS needs to improve the security of its computer room and its contents and should follow SSA's *Disability Determination Services Security Document*. Following the Security Document's guidelines would reduce the risk to sensitive SSA data and computer hardware/software. In addition, the SSA Denver Regional Security Officer should verify the existence and operational status of the intrusion alarm system in the computer room ceiling area.

## **EMERGENCY EVACUATION DRILLS**

SD-DDS had an evacuation plan visibly displayed in the office and emergency evacuation routes were clearly marked. However, SD-DDS had not conducted the required emergency evacuation drills.

SSA's *Disability Determination Services Security Document* states the evacuation plan should be prominently posted and evacuation drills conducted twice yearly.<sup>12</sup> Even though SD-DDS was only one of the building's tenants and may not have been able to control the frequency of the evacuation drills, we believe it is important to conduct periodic evacuation drills to reduce the possibility of injury or loss of life in the event of a physical disaster.

Subsequent to our visit, SD-DDS management stated that an emergency evacuation drill was held. We did not verify whether the drill was held. We believe the SSA Regional Security Officer should work with SD-DDS to ensure the conduct of future emergency evacuation drills.

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<sup>10</sup> DDS Security Document, Chapter VII Physical Security, Internal Office Security, pages 20 and 21, dated July 30, 2001 and the superseding Chapter VII, Physical Security, Internal Office Security, page 36, dated September 2003.

<sup>11</sup> DDS Security Document, Chapter VII Physical Security, Perimeter Office Security, page 20, dated July 30, 2001 and the superseding Chapter VII, Physical Security, Internal Office Security, page 36, dated September 2003.

<sup>12</sup> DDS Security Document, Chapter VII, Physical Security, Office Safety, page 37.

## *Conclusions and Recommendations*

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Our review of administrative costs disclosed that SD-DDS paid physicians \$158,513 in excess of its fee schedule for performing CEs and had not set limits for hourly rate procedures. Physicians were also overpaid an additional \$75,450 for narrative reports which described the results of their CEs. We also identified several internal control deficiencies that need to be corrected. In addition, SD-DDS needs to improve the physical security of its office space, especially the computer room.

We recommend SSA's RO:

1. Work with SD-DHS to determine the validity of the questioned CE costs and seek reimbursement of the costs, if appropriate

We recommend SSA instruct SD-DDS to:

2. Develop a fee schedule that reflects the South Dakota Administrative Rules and complies with SSA's POMS limiting physician reimbursement to the amounts shown on its fee schedule.
3. Cease paying for unbilled services and review the practice of paying for narrative reports to ensure such payments are appropriate under SSA's policies.
4. Establish maximum numbers of billing hours allowed for performing psychological examinations using SSA Administrators Letter No. 501 as guidance.
5. Require medical consultants to sign contracts outlining the terms of their employment, rate of pay, and hours to be worked. Also, management needs to ensure the validity of the hours reported on the medical consultant timesheets.
6. Take appropriate steps to improve the internal controls over inventory.
7. Comply with SSA's *Disability Determination Services Security Document* for computer room access by: moving the DOL emergency exit to non-SD-DDS space and locking the door between DOL and SD-DDS; cleaning the office during work hours or in the presence of DDS management; and installing a windowless door to the computer room.

We also recommend the Denver Regional Security Officer verify:

8. SD-DDS has a functioning intrusion detection system for the computer room and evacuation drills are performed on a regular basis.

## **SSA COMMENTS**

The Denver RO generally agreed with our recommendations. However, in commenting on recommendations 1 and 2, it stated most of the fees on the schedule were for x-rays, laboratory studies, etc. performed by hospitals, and suggested we refer to South Dakota Administrative Rule 67:16:03. In commenting on recommendation 3, the RO stated the DDS had a \$10.70 limit on reports with a CPT code of 99080; however, with a "22" indicator, the allowable fee increased to \$25.00. The RO stated it appears that the "22" indicator was not considered during our review. See Appendix C for the full text of SSA's comments.

## **STATE AGENCY COMMENTS**

SD-DHS agreed with three of the seven recommendations directed toward the DDS; did not address two recommendations; and disagreed with recommendations 1 and 3. Specifically, the SD-DHS stated that:

- During the audit period, SD-DDS reimbursed providers using two different fee schedules and the Office of the Inspector General did not consider South Dakota Administrative Rule 67:16:03, which authorizes payment for examinations and services performed in hospitals based on a percentage of the amount billed.
- The DDS did not pay more than the vendor billed or more than the billed CPT code allowed. The DDS split the amount billed between the exam and CPT code 99080. The DDS ceased this practice, now pays CPT code 99080 only when billed, and is reviewing the practice of paying for CPT code 99080.
- Payment for CPT code 90801 was based on a fee equal to \$75.60 per unit. SD-DHS believes the DDS interpreted and paid for this CPT code correctly.

SD-DHS' response did not address recommendations 2 and 4. SD-DHS generally agreed with recommendations 5, 6 and 7. The full text of the SD-DHS' comments is included in Appendix D.

## **OIG RESPONSE**

Due to limitations in the data file provided by SD-DDS, we could not substantiate SD-DHS' comments regarding Administrative Rule 67:16:03. As such, we are revising recommendation 1 to have SSA's RO determine the validity of the questioned costs and seek reimbursement of the costs, if appropriate.

With regard to recommendation 3, SD-DHS responded that if the hard vouchers were checked, the provider billing forms included with the voucher would show a 2-digit indicator of "22" which would increase the allowable payment to \$25.00. We re-examined the provider billing forms and payment vouchers for CPT code 99080 and

determined that 10 of 11 billing forms in our sample did not contain indicator codes even though SD-DDS staff had added a “22” indicator to the payment vouchers. Further, the fee schedule did not show an increase in the amount allowed when an indicator code was applied. In fact, analysis of the electronic CE data file showed the SD-DDS paid \$25.00 for each of the 3,018 narrative reports, but there were no “22” indicators on the electronic file.

We found no evidence to support SD-DHS’ contention the DDS split the amount billed between the examination and CPT code 99080. We determined the DDS paid the maximum amount allowed for each examination plus an additional \$25.00 for the narrative report. For example, a physician billed \$243.00 for an office consultation under CPT code 99245. He was paid \$132.50, the maximum amount allowable for CPT code 99245 per the fee schedule and was paid \$25.00 for a narrative report under CPT code 99080. We continue to believe the DDS is paying for narrative reports already required as part of the consultative examination, and believe the DDS will confirm this when it reviews its practices for paying for this CPT code.

# **Appendices**

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### **Acronyms**

Act	Social Security Act
CE	Consultative Examinations
C.F.R.	Code of Federal Regulations
CPT	Current Procedural Terminology
DDS	Disability Determination Services
DI	Disability Insurance
DOL	Department of Labor
FY	Fiscal Year
OD	Office of Disability
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SD-DDS	South Dakota Disability Determination Services
SD-DHS	South Dakota Department of Human Services
SSA	Social Security Administration
SSA-4513	State Agency Report of Obligations for SSA Disability Programs
SSI	Supplemental Security Income
RO	Regional Office
Treasury	Department of the Treasury
U.S.C.	United States Code

# **Scope and Methodology**

We obtained evidence to evaluate the appropriateness of recorded financial transactions under the provisions of Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

The South Dakota Department of Human Services (SD-DHS) reported \$7,938,868 in administrative costs for South Dakota Disability Determination Services (SD-DDS) operations for the period October 1, 1999 through September 30, 2002. To meet our objective, we:

- reviewed applicable Federal regulations and pertinent parts of SSA's Program Operations Manual System, section DI 39500, *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by SD-DDS and the draw down of SSA funds;
- interviewed SD-DHS and SD-DDS staff;
- documented our understanding of the SD-DHS' and SD-DDS' systems of internal controls over the accounting and reporting of administrative costs;
- evaluated and tested internal controls regarding accounting and financial reporting and cash management activities, as well as the draw down of SSA funds;
- traced the administrative expenditures SD-DHS reported on its Forms SSA-4513 to its accounting records;
- analyzed SD-DHS' draw downs of SSA funds and reconciled them with reported expenditures;
- reviewed the South Dakota Department of Legislative Audit's Single Audit reports and related working papers;
- conducted a physical inventory of computer equipment SSA provided to SD-DDS during our audit period;
- examined, on a limited basis, the physical security and environmental safety of SD-DDS;
- sampled 10 of 28 employees from one pay period to trace through the accounting records, agreed the hours worked to the timesheets, and recalculated pay;
- conducted analysis of consultative examination payments by comparing them to the SD-DDS fee schedules and supporting documentation;

- recalculated indirect costs and determined whether such costs were computed in accordance with the indirect cost agreement; and
- sampled 50 all other nonpersonnel transactions per year from the 1,019 transactions for FY 2000; 938 for FY 2001; and 1,059 for FY 2002 and traced the sampled transactions to supporting documentation.

We determined the computerized data used in this report was sufficiently reliable, given the audit objectives and intended use of the data, and should not lead to incorrect or unintentional conclusions. Our testing of the data reliability included tracing individual transactions to the source documents, recalculating totals and other tests we deemed necessary.

We performed work at the SD-DHS and SD-Department of Legislative Audits in Pierre, South Dakota and SD-DDS in Sioux Falls, South Dakota. We conducted our audit from July 2003 through March 2004. Our audit was completed in accordance with generally accepted government auditing standards.

# **Agency Comments**

SSA provided the following comments on the recommendations.

**Recommendation 1:** *Reimburse SSA \$158,513 paid in excess of the SD-DDS and Administrative Rule fee schedules.*

The audit considered South Dakota Administrative Rule 67:16:02 but failed to consider Rule 67:16:03. This rule covers payment for outpatient services for x-rays and laboratory procedures. All x-rays, speech evaluations, pulmonary studies, stress tests, etc. are conducted at hospitals and are paid under Rule 67:16:03. These consultative examination and procedure fees should be reevaluated to insure that the guides of this rule are followed also. We expect the State to go into more detail on this subject in their comments.

**Recommendation 2:** *Develop a fee schedule that reflects the South Dakota Administrative Rules and complies with SSA's POMS limiting physician reimbursement to the amounts shown on its fee schedule.*

We concur that the DDS should develop a fee schedule that reflects Rules 67:16:02 and they should also include Rule 67:16:03. The fee schedule should also comply with Chapter 20 of the Code of Federal Regulations (CFR) paragraph 404.1624. We have not stressed the necessity of the DDS budget officer visiting the DDS and Fiscal Department to discuss CE and MER costs, CE reviews, and other issues. Trips by the budget officer to discuss budgetary issues will be placed higher on the travel agenda in future fiscal years.

**Recommendation 3:** *Cease paying for unbilled services and review the practice of paying for narrative reports to ensure such payments are appropriate under SSA's policies and pay SSA \$75,450 for overpayment on reports.*

The DDS has a \$10.70 limit on reports with a current procedural terminology (CPT) code of 99080 but with a 22 indicator, the fee increases to \$25.00. It appears that the 22 indicator was not considered in the review of these exams. The State will provide more detail on correct charges in this area.

**Recommendation 4:** *Establish maximum numbers of billing hours allowed for performing psychological examinations using SSA Administrators Letter No. 501 as guidance.*

We concur with this recommendation.

**Recommendation 5:** *Require medical consultants to sign contracts outlining the terms of their employment, rate of pay, and hours to be worked. Also, management needs to ensure the validity of the hours reported on the medical consultant timesheets.*

We concur with this recommendation.

**Recommendation 6:** *Take appropriate steps to improve the internal controls over inventory.*

We concur with this recommendation.

**Recommendation 7:** *Comply with SSA's DDS Security Document for computer room access by: moving the Department of Labor's (DOL) emergency exit to non-SD-DDS space and locking the door between DOL and SD-DDS; cleaning the office during work hours or in the presence of DDS management; and installing a windowless door to the computer room.*

We concur with this recommendation.

**Recommendation 8:** *The Denver Regional Security Officer should verify that the DDS has a functioning intrusion detection system for the computer room and evacuation drills are performed on a regular basis.*

We concur with this recommendation.

If you wish to discuss the draft report, please call Bob Carmichael, Budget Officer, Center for Disability, at (303) 844-4878.

## ***Appendix D***

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### **South Dakota Department of Human Services Comments**



**DEPARTMENT OF HUMAN SERVICES**  
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December 8, 2004

Steven L. Schaeffer, Assistant Inspector General for Audit  
Social Security Administration  
Office of the Inspector General  
4-L-1 operations Bldg  
6401 Security Blvd Baltimore, MD 21235

Dear Mr. Schaeffer:

The attached document is the Department of Human Services response to the Office of Inspector General (OIG) draft audit report, dated October 7, 2004, for the Administrative Costs Claimed by the South Dakota Disability Determination Services (A-15-03-13060). The on-site audit of the SD-DDS was conducted on July 11, 2003.

The Department of Human Services and Division of Rehabilitation Services / Disability Determination Services (DHS/SD-DDS) have structured the response as follows:

- Repeating the content of the CIG draft report
- Identifying "DHS / SD-DDS Response:" as necessary

As the state department given responsibility for administering the Disability Determination Services program, the South Dakota Department of Human Services works diligently to assure program compliance and program integrity in all service delivery. As you will note in our response to the OIG draft audit report, we have thoroughly addressed each of the draft findings presented. Several areas have already been remedied and the remaining areas are being addressed through policy and practice changes. Given this commitment and response to the findings on the part of DHS / SD-DDS, we respectfully request that the recommendation of \$158,513 reimbursement to the Social Security Administration be waived or identified as questionable costs rather than 'excess payments' in the final audit report.

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If you wish to discuss or have any questions, please contact Dan J. Lusk or John T. Hanson, DHS Office of Budget & Finance at (605) 773-5990.

Sincerely,



Betty Oldenkamp  
Department Secretary

cc:

Dan J. Lusk, Director of DHS Office of Budget and Finance  
Grady Kickul, Director of Division of Rehabilitation Services  
Dave Tschetter, Manager of Disability Determination Services

## **RESULTS OF REVIEW**

### **CONSULTATIVE EXAMINATION (CE) PAYMENTS:**

- 1) Paid \$158,513 for CE fees in excess of its fee schedule.
- 2) Paid physicians for unbilled services and for preparing narrative reports.
- 3) Did not limit the amount paid for psychiatric examinations.

### **DHS / SD-DDS Response:**

**99080 (Medical Report):** OIG states that during the three-year period, \$43,304.60 was overpaid or paid inappropriately to Consultative Exam vendors. The state fee for 99080 is \$10.70, however, with a 22 indicator, the fee increases to \$25.00. OIG contests that a report is considered part of the examination, however, DDS asks for more than a basic report from a provider. SSA requires that sources provide a statement of functioning along with their findings. The statement of function (Medical Source Statement) addresses the specific functional ability of a claimant, i.e., standing, walking, sitting, carrying, lifting, etc. or in the case of a mental impairment, such items as ability to relate to others, communicate, cognitive ability, etc. If the hard vouchers were checked, the HCFA forms included with the voucher would show a two digit indicator of 22. The other contention was that DDS paid the \$25.00 fee when the source did not request it. At no time did the DDS pay more than what the vendor had billed or more than the billed CPT code allowed. The DDS has split the amount billed between the exam CPT and 99060. The DDS has ceased this practice and pays 99080 only when billed and is reviewing their practice of paying under 99080.

**90801 (Mental Status Exam):** These are billed by the unit with the fee equal to \$75.60 per unit. These were paid either to a licensed clinical psychologist or a psychiatrist. The low figure reflects billing from a Community Mental Health Center and the higher figure from private practice. The figure stated as overpayment during the three year period was \$37,912.41. We feel that the SD-DDS interpretation and payment of this CPT was performed correctly.

During the time frame of the audit the department was reimbursing providers using two different fee schedules. If payment was made to a clinic / physician, reimbursement was based upon Administrative Rule 67: 16:02:03 and Administrative Rule 67: 16:02:03.02. If payment was made to a hospital, then Administrative Rule 67:16:03:06.01 was applied and this rule states that reimbursement should be at 100% or 90% of the billed amount. The following is a list of CPT codes that were reimbursed under 67:16:03:06.01.

**MO601:** The figures related to this code are based on psychological exams billed by hospitals. The individuals performing the exams were hospital employees, and payment went to the hospital and not the individual. The 100% and 90% figures were used depending on whether it was a regular hospital (Rapid City Regional) or a specialty hospital (Children's Care Hospital and School). The three year figure on this was \$6,057.00.

**92506 (Speech Evaluations):** Speech evaluations are performed either at a hospital or specialty hospital. Reimbursement procedures would be the same as MO601. This amounted to \$7,575.65.

**94010, 94060, 94250, 94260, 94350, and 94720 (All relate to Pulmonary Function Studies):** These procedures are performed at a hospital and reimbursement is at the 90% figure used at the time of the audit.

**70000 Codes (X-Rays):** There are two different reasons for payment on these items that would not be reflected in the data OIG used to come to their conclusions. The first is that many of these procedures were billed from hospitals and paid at the 90% rate. The second reason is that a single CPT code may include more than one X-ray; this would not be reflected in the spreadsheet data.

**78465, 93017, 93018 and 93307 (All relate to a Thallium Stress Test):** These procedures are performed exclusively at a hospital and would have been reimbursed at the 90% fee figure.

The DDS also utilizes a minimal number of Iowa, North Dakota and Wyoming sources. When out-of-state sources are used, SD-DDS's reimburses at the fee schedule rate "for that particular state (POMS 39.545.250).

This is the first opportunity SD-DDS has had to provide additional information regarding the findings under CE payments. The CE payments were not identified as an area of concern by the auditors during the on-site exit conference.

**INTERNAL CONTROLS:**

1) Medical Consultants working without benefit of a signed contract showing terms of employment, rate of pay, and hours to be worked. Medical Consultants recorded their scheduled work hours directly onto a monthly timesheet that was used for billing purposes.

**DHS / SD-DDS Response:**

We agree. Contracts with all medical consultants have been executed and are in place identifying all applicable terms.

2) South Dakota did not maintain inventory lists as required by Federal regulations. The State is responsible for maintaining all property provided by SSA for performing the disability determination function. The State is required to perform a periodic inventory of SSA distributed equipment. Maintaining such records will facilitate the annual inventories and could help to detect any stolen or misplaced equipment.

**DHS / SD-DDS Response:**

It is our understanding that an inventory listing was provided to the auditors while they were on-site at the SD-DDS in Sioux Falls. An inventory listing will continue to be maintained and an annual physical inventory of all equipment will be performed.

**GENERAL CONTROLS FOR PHYSICAL SECURITY AND SAFETY OF THE SD-DDS:**

1) Access to SSA Data. Several security issues were identified relating to the SD-DDS computer room. The computer room security weaknesses included a door that was not routinely locked, the janitorial staff was not supervised by SD-DDS managers, and the computer room was easily identifiable because the outer door had a glass insert. Also, we did not verify the existence or operational status of an intrusion detection device for the computer room.

Additionally, the primary door to the computer room was not a solid wood core door. It had glass inserts. Individuals passing by could look in the window and identify the room as containing computer data, hardware and software. SSA's *Disability Determination Services Security*

*Document* requires the computer room door be of solid wood core construction and kept locked at all times.

Lastly, SSA's *Disability Determination Services Security Document* states the walls of computer rooms should have slab-to-slab construction to prevent unauthorized entry or, as revised in September 2003, the computer room must be made secure by installing chain link fences, heavy wire mesh, or motion sensor devices in the space between the false ceiling and the true ceiling of the facility. The walls of the computer room did not extend beyond the suspended ceiling. Subsequent to our visit, SD-DDS management indicated to us there was an intrusion detection system installed in the ceiling area to detect unauthorized access. However, we did not verify the system's existence or whether it was operational.

**DHS / SD-DDS Response:**

As of November 24, 2004 all existing entrance doors and the computer room door have been replaced with solid core wooden doors and metal jams. Non-rising hinge pins and peepholes were placed in the doors.

The issue of slab-to-slab walls was addressed when the DDS relocated to their present building location. The Social Security Administration Regional Office gave their approval of the space prior to the relocation of the SD-DDS to the current office location. Because mechanical, phone, electrical and data lines are above the DDS space, it was virtually impossible to rebuild the existing walls slab-to-slab. While remodeling the existing walls was not possible, the agency's intrusion devices were upgraded to include any movement in all DDS space. The concerns expressed related to the door between the two computer rooms was addressed with a contact alarm that will alert SD-DDS management staff if the computer room door is opened during work hours. The door is part of the agency's night time security system.

The SD-DDS is part of a building cleaning contract and cleaning is completed after normal working hours. The SSA / DDS Program Operations Manual System (POMS) states that Clean Desk Policies should be enforced if office cleaning takes place outside of normal business hours. The SD-DDS adheres to a Clean Desk Policy as defined in POMS and in compliance with the Privacy Act. While the DDS is not a covered entity under the Health Insurance Portability and Accountability Act of 1966 (HIPPA), the Department of Human Services requires compliance with HIPPA standards in the security of individual's protected health information (phi). SD-DDS employees comply with both the standards in the POMS and the DHS HIPPA policy. SD-DDS employees monitor their own work area and secure all case files located in their office. The security officer or designated individual does a walk through of the SD-DDS area at the end of the day to assure that all case files are secured. The computer room is cleaned only by agency staff and during regular working hours.

2) Emergency Evacuation Drills.

SD-DDS had an evacuation plan visibly displayed in the office and emergency evacuation routes were clearly marked. However, SD-DDS had not conducted the required emergency evacuation drills.

SSA's *Disability Determination Services Security Document* states the evacuation plan should be prominently posted and evacuation drills conducted twice yearly. Even though SO-DDS was only one of the building's tenants and may not have been able to control the frequency of the evacuation drills, we believe it is important to conduct periodic evacuation drills to reduce the possibility of injury or loss of life in the event of a physical disaster.

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Subsequent to our visit, SD-DDS management stated that an emergency evacuation drill was held. We did not verify whether the drill was held. We believe the SSA Regional Security Officer should work with SD-DDS to ensure the conduct of future emergency evacuation drills.

DHS / SD-DDS Response:

The SD-DDS will conduct comprehensive security training during the first quarter of calendar year 2005 and this will be reported on our annual security check list.

The SD-DDS will conduct the required evacuation drills at least twice a year and will document the occurrence of such drills.

# **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 the South Dakota Disability Determination Services (SD-DDS) for Fiscal Years (FY) 2000 through 2002 for use in statistical sampling. After selecting and reviewing randomly selected samples, we did not identify any errors in the Personnel, Indirect, and All Other Non-Personnel costs areas that warranted audit findings.

### **Medical Costs**

We selected 150 items (50 items from each FY) using a stratified random sample. We stratified medical costs into Medical Evidence of Record and Consultative Examinations and selected more consultative examinations invoices because these costs represented 77 percent of all medical costs. Of the 150 transactions selected, 115 represented consultative examinations while the remaining 35 were for medical evidence.

Our examination of the documentation provided for the 115 consultative examinations selected disclosed that 18 transactions were actually payments for Medical Evidence of Records that had been miscoded by SD-DDS. Therefore, our examination was limited to the remaining 97 consultative examinations. Findings identified during our sampling of the consultative examinations were quantified based on a 100 percent review of the consultative examinations.

## Schedule of Obligations Reported, Questioned, and Allowed

### South Dakota Disability Determination Services

Fiscal Years (FY) 2000–2002 Combined			
COSTS	REPORTED	QUESTIONED	ALLOWED
Personnel	\$3,674,533	0	\$3,674,533
Medical	\$2,281,362	\$233,963	\$2,047,399
Indirect	\$699,391	0	\$699,391
All Other	\$1,283,582	0	\$1,283,582
Total	\$7,938,868	\$233,963	\$7,704,905

  

FY 2000			
COSTS	REPORTED	QUESTIONED	ALLOWED
Personnel	\$1,158,005	0	\$1,158,005
Medical	\$718,787	\$47,238	\$671,549
Indirect	\$251,604	0	\$251,604
All Other	\$355,615	0	\$355,615
Total	\$2,484,011	\$47,238	\$2,436,773

  

FY 2001			
COSTS	REPORTED	QUESTIONED	ALLOWED
Personnel	\$1,210,152	0	\$1,210,152
Medical	\$745,124	\$88,154	\$656,970
Indirect	\$216,226	0	\$216,226
All Other	\$336,370	0	\$336,370
Total	\$2,507,872	\$88,154	\$2,419,718

  

FY 2002			
COSTS	REPORTED	QUESTIONED	ALLOWED
Personnel	\$1,306,376	0	\$1,306,376
Medical	\$817,451	\$98,571	\$718,880
Indirect	\$231,561	0	\$231,561
All Other	\$591,597	0	\$591,597
Total	\$2,946,985	\$98,571	\$2,848,414

## ***Appendix G***

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# **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Lance Chilcoat, Audit Manager, (410) 965-9743

### ***Staff Acknowledgments***

In addition to those named above:

Frederick Nordhoff, Director

Richard Wilson, Auditor-in-Charge

Steven Sachs, Auditor-in-Charge

Sandra Westfall, Senior Program Analyst

Ronald Anderson, Auditor

Ellen Silvela, Auditor

Wesley Lewis, Senior Auditor

Brennan Kraje, Statistician

Annette DeRito, Writer/Editor

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