

May 17, 1999

Mr. Ken Powell
Acting Assistant Regional Commissioner
for Management and Operations Support
Social Security Administration
601 E. 12th Street
Kansas City, Missouri 64106

Dear Mr. Powell:

The enclosed final report presents the results of our review of Administrative Costs at the Missouri Disability Determination Services (A-07-97-51006). The objectives of our audit were to determine whether: 1) expenditures and obligations were properly authorized and disbursed; 2) Federal funds withdrawn agreed with total expenditures; and 3) internal controls over the accounting and reporting of administrative costs were adequate.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to comment, please provide your comments within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Roger Normand at (617) 565-1822 or Mark Bailey at (816) 936-5591.

Sincerely,

Daniel R. Devlin
Acting Assistant Inspector General
for Audit

Enclosure

cc:
Michael Grochowski
Regional Commissioner, Region VII

Neil Scully
Administrator
Missouri Disability Determination Services

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS
CLAIMED AT THE
MISSOURI DISABILITY
DETERMINATION SERVICES**

May 1999 A-07-97-51006

AUDIT REPORT



EXECUTIVE SUMMARY

OBJECTIVE

The objectives of our audit of the administrative costs claimed by the Missouri Disability Determination Services (MODDS) were to determine whether: 1) expenditures and obligations were properly authorized and disbursed; 2) Federal funds withdrawn agreed with total expenditures; and 3) internal controls over the accounting and reporting of administrative costs were adequate.

BACKGROUND

In accordance with Federal regulations, each State's Disability Determination Services (DDS) makes disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs. In making disability determinations, DDSs are authorized to purchase medical examinations, x-rays and laboratory tests on a consultative basis to supplement evidence obtained from claimants' physicians or other treating sources.

SSA reimburses DDSs for 100 percent of allowable expenditures. Each year, SSA determines the amount of funding authorization. Once approved, the DDS is allowed to withdraw Federal funds through the Department of Health and Human Services' (HHS) Payment Management System (PMS) operated by HHS' Division of Payment Management (DPM).¹ At the end of each quarter of the Fiscal Year, DDSs submit Form SSA-4513 (Report of Obligations) to SSA to account for program expenditures and unliquidated obligations.

RESULTS OF REVIEW

We conducted an audit of the administrative costs claimed by MODDS for the period October 1, 1994 through September 30, 1996. We found:

- Vendor refunds and uncashed checks² totaling \$107,428 were not reported on the Report of Obligations.

¹ During our audit period, PMS disbursed SSA funds. Beginning in Fiscal Year 1997, SSA funds were disbursed by the Department of the Treasury through the Automated Standard Application for Payments system.

² Vendor refunds consisted of monies returned to MODDS primarily because of MODDS billing errors. Uncashed checks consisted of monies returned to MODDS when payees failed to cash State issued checks within 12 months of issuance.

- SSA was not reimbursed for MODDS's portion of the \$11,781 received by the State for the sale of surplus property.
- Federal funds withdrawn exceeded allowable expenditures by \$17,663 for FY 1995, and were \$98,459 less than expenditures during FY 1996.

Prior to the end of our field work, MODDS initiated actions to address some of the issues disclosed in our review. MODDS submitted to SSA a revised final Report of Obligations for FYs 1995 and 1996 and reduced expenditures by \$107,428. MODDS also reconciled the FYs 1995 and 1996 expenditures reported on the revised final Report of Obligations to the PMS disbursements. The reconciliation results were reported to HHS' DPM and the FYs 1995 and 1996 PMS allotment account balances were properly adjusted. The PMS disbursements were also reconciled to the cash withdraws recorded in the Financial Management (FM) system.

RECOMMENDATIONS

MODDS addressed some of the issues disclosed in our review; however, further actions are needed. Therefore, we recommend that SSA require the MODDS to:

- Establish accounting procedures for reporting amounts received from vendor refunds and uncashed checks on the Report of Obligations.
- Refund to SSA an appropriate portion of the \$11,781 received by the State for the sale of surplus property.
- Establish accounting procedures for reporting amounts received from the sale of MODDS surplus property on the Report of Obligations.
- Perform a quarterly reconciliation of cash withdraws recorded in the State's FM system to disbursements reported in the Department of the Treasury's Automated Standard Application for Payments system.

AGENCY COMMENTS

SSA agreed with the results of our review and stated that MODDS had taken actions to implement our recommendations. In addition, SSA concurred with the State's proposal to refund to SSA \$3,417 of the \$11,781 received by the State for the sale of surplus property (see Appendix C for the full text of SSA's comments).

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INTRODUCTION

OBJECTIVE

The objectives of our audit of the administrative costs claimed by the Missouri Disability Determination Services (MODDS) were to determine whether: 1) expenditures and obligations were properly authorized and disbursed; 2) Federal funds withdrawn agreed with total expenditures; and 3) internal controls over the accounting and reporting of administrative costs were adequate.

BACKGROUND

The Disability Income (DI) program, established in 1954 under title II of the Social Security Act, provides benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted title XVI, the Supplemental Security Income (SSI) program (Public Law 92-603). SSI provides a nationally uniform program of income and disability coverage to financially needy individuals who are aged, blind or disabled.

The Social Security Administration (SSA) is primarily responsible for implementing the general policies governing the development of disability claims under the DI and SSI programs. In accordance with Federal regulations, each State's Disability Determination Services (DDS) makes disability determinations under both the DI and SSI programs. In carrying out its obligations, each DDS is responsible for determining whether an individual is disabled and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, the DDS is authorized to purchase medical examinations, x-rays and laboratory tests on a consultative basis to supplement evidence obtained from claimants' physicians or other treating sources.

SSA reimburses the DDS for 100 percent of allowable expenditures. Each year, SSA determines the amount of funding authorization. Once approved, the DDS is allowed to withdraw Federal funds through the Payment Management System (PMS). The Department of Health and Human Services' Division of Payment Management (DPM) was responsible for operating the PMS and for maintaining records of SSA funds disbursed to each State DDS.¹ At the end of each quarter of the fiscal year (FY), DDSs submit to SSA the Report of Obligations to account for program expenditures and unliquidated obligations.

¹ Beginning in Fiscal Year 1997, cash disbursements were made by the Department of the Treasury through the Automated Standard Application for Payments system.

MODDS claimed administrative costs of \$47,693,349 to process claims under SSA's DI and SSI programs for the period October 1, 1994 through September 30, 1996 (see Appendices A and B). MODDS is a component within the Missouri Division of Vocational Rehabilitation (MODVR) under the Missouri Department of Elementary and Secondary Education (MODESE). MODVR performed MODDS' primary accounting functions including withdraws of Federal funds.

SCOPE AND METHODOLOGY

We conducted an audit of the administrative costs claimed by MODDS for the period of October 1, 1994, through September 30, 1996 (FYs 1995 and 1996). Our audit was conducted in accordance with generally accepted government auditing standards. Fieldwork was performed from October 1997 through September 1998 at MODVR and MODDS in Jefferson City, Missouri; the SSA regional office in Kansas City, Missouri; and the Office of Audit in Kansas City, Missouri.

To conduct our audit, we reviewed: 1) SSA's Program Operations Manual System and other Federal laws and instructions pertaining to DDS administrative costs and withdraws of Federal funds; 2) MODESE and MODVR policies and procedures on the recording and reporting of expenditures and obligations; and 3) the Missouri Office of the Auditor General's working papers for State FYs² 1994 through 1996 Single Audits as they related to the MODDS. We also performed an examination of administrative expenditures (personnel, medical services, indirect and all other nonpersonnel costs) incurred and claimed by MODDS for the 2-year period ended September 30, 1996. Additionally, for FYs 1995 and 1996, we reviewed MODVR accounting records for MODDS administrative costs and cash withdraws.

We reviewed internal controls applicable to the recording and reporting of funds properly authorized and disbursed for the 2-year period ended September 30, 1996. We found the internal controls were adequate except for the weaknesses identified in this report. Our review of the internal controls included tests of each line item on the Report of Obligations including personnel, medical, indirect and all other nonpersonnel costs.

² The State of Missouri's FY begins on July 1 and ends on June 30 (i.e., State FY 1994 began on July 1, 1993, and ended on June 30, 1994).

RESULTS OF REVIEW

Our review disclosed that vendor refunds and uncashed checks totaling \$107,428 were not reported on the Report of Obligations. Also, SSA was not reimbursed for MODDS' portion of the \$11,781 received by the State for the sale of surplus property. In addition, our review disclosed that cash withdraws exceeded expenditures by \$17,663 during FY 1995, and were \$98,459 less than expenditures during FY 1996.

VENDOR REFUNDS AND UNCASHED CHECKS

MODDS did not report the amounts received from vendor refunds and uncashed checks on the Report of Obligations for FYs 1995 and 1996. As a result, the expenditures reported to SSA on the Report of Obligations were overstated by \$107,428. Vendor refunds consisted of monies returned to MODDS primarily because of billing errors. Uncashed checks consisted of monies returned to MODDS when payees failed to cash State issued checks within 12 months of issuance. According to MODVR officials, most vendor refunds and uncashed checks related to medical services payments to purchase consultative examinations and medical evidence of record.

Vendor refunds and uncashed checks were posted to a refund account in MODVR's Financial Management (FM) system. However, when reporting costs to SSA on the Report of Obligations, expenditures were not reduced by the refund account amount.³

SURPLUS PROPERTY

During FYs 1995 and 1996, MODVR received proceeds of \$11,781 from the sale of surplus property. The proceeds were for the sale of both MODVR and MODDS property. However, MODVR did not reimburse SSA for MODDS's portion of the \$11,781. According to SSA instructions, proceeds from the sale of property that was paid for by SSA should be accounted for on the Report of Obligations by reducing the amount of expenditures.

We requested surplus property records from MODVR so that we could identify the portion of the \$11,781 applicable to MODDS property. MODVR stated that records did not exist which identified the sale amount of each piece of property sold or that identified proceeds separately between MODVR and MODDS surplus property.

³ The impact on cash withdraws as a result of MODDS not reporting the \$107,428 in vendor refunds and uncashed checks on the Report of Obligations was accounted for in our comparison of cash withdraws to expenditures (see Footnote 5).

MODVR proposed returning \$3,417 of the \$11,781 to SSA. MODVR calculated the \$3,417 by: 1) dividing the acquisition cost of the MODDS surplus property (\$192,484) by the total acquisition cost of MODVR and MODDS property (\$653,068) which equals 29 percent, and 2) applying the 29 percent to the surplus property proceeds (\$11,781 x 29 percent = \$3,417). We are making no judgments as to the reasonableness of MODVR's proposal and are leaving to SSA's discretion the amount of the \$11,781 to be refunded.⁴

FEDERAL FUNDS WITHDRAWN

For FY 1995, MODDS's withdrawals of Federal funds exceeded its allowable expenditures by \$17,663. For FY 1996, withdrawals were \$98,459 less than expenditures. A comparison of MODDS withdraws to expenditures for the audited period is shown below.

COMPARISON OF CASH WITHDRAWS TO EXPENDITURES			
Fiscal Year	Cash Withdraws	MODDS Expenditures ⁵	Over (Under) Draw
1995	\$22,741,789	\$22,724,126	\$17,663
1996	24,759,919	24,858,378	(98,459)
TOTAL	\$47,501,708	\$47,582,504	(\$80,796)

Our analysis disclosed that withdrawals reported by MODDS in the FM system were not the same amounts reported as disbursements by DPM in the PMS. This occurred because of clerical input errors in posting PMS disbursements to the FM system. The MODDS did not have procedures in place to ensure that PMS disbursements were properly posted to the FM system (i.e., a periodic reconciliation of PMS disbursements to cash withdrawals recorded in the FM system).

Our review also disclosed the following inconsistencies between MODDS's and DPM's detailed cash withdraw records:

- A January 9, 1995 disbursement in the amount of \$500,000 from the FY 1995 PMS allotment account was recorded in the FM system as a FY 1994 PMS allotment account withdraw.

⁴ In commenting on the draft report, SSA agreed with MODVR's proposal to refund \$3,417 to SSA (see Appendix C). The impact on cash withdraws as a result of MODDS not reporting the \$3,417 in surplus property on the Report of Obligations was accounted for in our comparison of cash withdraws to expenditures (see Footnote 5).

⁵ MODDS expenditures are the SSA-4513 expenditures claimed by MODDS (\$47,693,349) on the Report of Obligations less the net recommended audit adjustments reported in Appendix A and B to this report (\$98,307 + \$12,538 = \$110,845).

- An October 13, 1995, disbursement in the amount of \$850,000 from the FY 1995 PMS allotment account was recorded in the FM system as a \$550,000 FY 1995 PMS allotment account withdraw and a \$300,000 FY 1996 PMS allotment account withdraw.
- An October 18, 1995, disbursement in the amount of \$450,000 from the FY 1995 PMS allotment account was recorded in the FM system as a \$300,000 FY 1995 PMS allotment account withdraw and a \$150,000 FY 1996 PMS allotment account withdraw.
- A July 1, 1996, disbursement in the amount of \$16,084 from the FY 1995 PMS allotment account was recorded in the FM system as a FY 1996 PMS allotment account withdraw.
- An April 7, 1997, disbursement in the amount of \$5,000 from the FY 1997 PMS allotment account was recorded in the FM system as a FY 1996 PMS allotment account withdraw.

The MODDS had procedures in place to reconcile expenditures to cash withdrawals recorded in the FM system. However, these procedures were ineffective since MODDS did not have procedures in place to ensure that PMS disbursements were recorded correctly in the FM system. Had there been procedures in place to periodically reconcile PMS disbursements to the cash withdrawals recorded in the FM system, these inconsistencies would have been detected.

CONCLUSIONS AND RECOMMENDATIONS

Our review disclosed that MODDS did not have procedures in place for reporting vendor refunds and uncashed checks on the Report of Obligations. As a result, vendor refunds and uncashed checks totaling \$107,428 were not accounted for on the Report of Obligations for FYs 1995 and 1996.

Our review also disclosed that MODDS did not have procedures in place for reporting to SSA the amounts received from the sale of MODDS surplus property. As a result, SSA was not reimbursed for MODDS's portion of the \$11,781 in surplus property proceeds received by the State during FYs 1995 and 1996. In responding to the draft report, SSA agreed with MODVR's proposal to refund \$3,417 of the \$11,781 received by the State for the sale of surplus property.

Our review of cash withdraws disclosed that MODDS did not have procedures in place to ensure that PMS disbursements were properly posted to the FM system. As a result, withdraws exceeded expenditures by \$17,663 during FY 1995, and were \$98,459 less than expenditures during FY 1996.

Prior to the end of our field work, MODDS initiated actions to address some of the issues disclosed in our review. MODDS submitted a revised final Report of Obligations for FYs 1995 and 1996 and reduced expenditures by \$107,428. MODDS also reconciled the FYs 1995 and 1996 expenditures reported on the revised final Report of Obligations to the PMS disbursements. The reconciliation results were reported to DPM and the FYs 1995 and 1996 PMS allotment account balances were properly adjusted. The PMS disbursements were also reconciled to the cash withdraws recorded in the FM system.

MODDS addressed some of the issues disclosed in our review; however, further actions are needed. Therefore, we recommend that SSA require the MODDS to:

1. Establish accounting procedures for reporting amounts received from vendor refunds and uncashed checks on the Report of Obligations.
2. Refund to SSA an appropriate portion of the \$11,781 received by the State for the sale of surplus property.
3. Establish accounting procedures for reporting amounts received from the sale of MODDS surplus property on the Report of Obligations.

4. Perform a quarterly reconciliation of cash withdraws recorded in the State's FM system to disbursements reported in the Department of the Treasury's Automated Standard Application for Payments system.

AGENCY COMMENTS

SSA agreed with the results of our review and stated that MODDS had taken actions to implement our recommendations (see Appendix C for the full text of SSA's comments).

APPENDICES

MODDS OBLIGATIONS REPORTED/ALLOWED FOR FISCAL YEAR 1995

COSTS	TOTAL OBLIGATIONS			UNLIQUIDATED OBLIGATIONS			EXPENDITURES			
	COSTS	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE
PERSONNEL	\$11,860,841		\$0	\$11,860,841	\$0	\$0	\$0	\$11,860,841	\$0	\$11,860,841
MEDICAL	7,573,065		(96,279)	7,476,786	0	0	0	7,573,065	(96,279)	7,476,786
INDIRECT	1,294,330		0	1,294,330	0	0	0	1,294,330	0	1,294,330
ALL OTHER	<u>2,094,197</u>		<u>(2,028)</u>	<u>2,092,169</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2,094,197</u>	<u>(2,028)</u>	<u>2,092,169</u>
TOTAL	<u>\$22,822,433</u>		<u>(\$98,307)</u>	<u>\$22,724,126</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$22,822,433</u>	<u>(\$98,307)</u>	<u>\$22,724,126</u>

MODDS OBLIGATIONS REPORTED/ALLOWED FOR FISCAL YEAR 1996

COSTS	TOTAL OBLIGATIONS			UNLIQUIDATED OBLIGATIONS			EXPENDITURES			
	COSTS	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE	REPORTED	NET RECOMMENDED ADJUSTMENTS	ALLOWABLE
PERSONNEL	\$11,588,909		\$0	\$11,588,909	\$0	\$0	\$0	\$11,588,909	\$0	\$11,588,909
MEDICAL	9,087,935		(11,149)	9,076,786	0	0	0	9,087,935	(11,149)	9,076,786
INDIRECT	1,285,783		0	1,285,783	0	0	0	1,285,783	0	1,285,783
ALL OTHER	<u>2,908,289</u>		(1,389)	<u>2,906,900</u>	0	0	0	<u>2,908,289</u>	(1,389)	<u>2,906,900</u>
TOTAL	<u>\$24,870,916</u>		<u>\$(12,538)</u>	<u>\$24,858,378</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$24,870,916</u>	<u>(\$12,538)</u>	<u>\$24,858,378</u>

APPENDIX C

AGENCY COMMENTS

MAJOR REPORT CONTRIBUTORS

Office of the Inspector General

Roger Normand, Director, Northern Program Audit Division

Mark Bailey, Acting Deputy Director

Ron Bussell, Auditor

Wanda Craig, Auditor

For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-5998. Refer to Common Identification Number A-07-97-51006.

SSA ORGANIZATIONAL CHART
