

Audit Report

Vocational Rehabilitation Services
Reimbursements for Supplemental
Security Income and Disability
Insurance Beneficiaries



MEMORANDUM

Date: June 19, 2017 **Refer To:**

To: The Commissioner

From: Acting Inspector General

Subject: Vocational Rehabilitation Services Reimbursements for Supplemental Security Income and Disability Insurance Beneficiaries (A-15-14-14095)

The attached final report presents the results of the Office of Audit's review. The objective was to determine the validity and accuracy of the Social Security Administration's reimbursements to State vocational rehabilitation agencies.

If you wish to discuss the final report, please call me or have your staff contact Rona Lawson, Assistant Inspector General for Audit, 410-965-9700.

A handwritten signature in black ink that reads "Gale Stallworth Stone".

Gale Stallworth Stone

Attachment

Vocational Rehabilitation Services Reimbursements for Supplemental Security Income and Disability Insurance Beneficiaries

A-15-14-14095



June 2017

Office of Audit Report Summary

Objective

To determine the validity and accuracy of the Social Security Administration's (SSA) reimbursements to State vocational rehabilitation (VR) agencies.

Background

The *Social Security Act* authorizes SSA to pay State VR agencies for the costs of services they provide to beneficiaries with disabilities. The services provided by a State VR agency are identified in the *Rehabilitation Act of 1973*, as amended, Title I, Parts A and B, and are spelled out in an agreement between the disabled individual and the VR counselor in an Individualized Plan for Employment.

SSA does not directly provide rehabilitation services. State VR agencies furnish the services. Under Department of Education regulations, State VR agencies assess beneficiaries' rehabilitation potential, decide whether to accept a person as a client, notify SSA if it accepts a person as a client, and arrange for VR services.

Findings

SSA did not (1) always verify beneficiaries met the primary conditions for reimbursement and (2) obtain required documentation (such as cost-containment certifications).

We determined that 29 of the 100 sampled reimbursement payments SSA made to State VR agencies did not meet the primary conditions for reimbursement. The State VR agencies received \$220,318 in overpayments and \$10,522 in underpayments. SSA automatically recoups any identified improper payments made to State VR agencies from future payments; therefore, based on our review, SSA recouped the \$220,318 in overpayments and paid the \$10,522 in underpayments. Since SSA recouped the overpayments and paid the underpayments, we did not make a recommendation regarding this condition. However, based on our sample results, we estimate SSA overpaid about \$22 million in Fiscal Year 2014 reimbursement payments that did not meet the primary conditions for reimbursement.

Recommendation

We recommend SSA obtain the State VR agencies' written certification that cost-containment policies were in effect and adhered to before paying for goods and services.

SSA agreed with our recommendation.

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ABBREVIATIONS

ACP	Administrative, Counseling, and Placement
C.F.R.	Code of Federal Regulations
DI	Disability Insurance
FY	Fiscal Year
IPE	Individualized Plan for Employment
iTOPSS	Internet Ticket Operation Support System
MBR	Master Beneficiary Record
OIG	Office of the Inspector General
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
PVR	Prepayment Validation Review
QA	Quality Assurance
RSA	Rehabilitation Services Administration
SGA	Substantial Gainful Activity
SSA	Social Security Administration
SSI	Supplemental Security Income
SSR	Supplemental Security Record
U.S.C.	United States Code
VR	Vocational Rehabilitation
VRRMS	Vocational Rehabilitation Reimbursement Management System

OBJECTIVE

Our objective was to determine the validity and accuracy of the Social Security Administration's (SSA) reimbursements to State vocational rehabilitation (VR) agencies.

BACKGROUND

The Rehabilitation Act of 1973,¹ as amended, established the VR Reimbursement Program to authorize assistance to the States² in meeting disabled individuals' needs so they may prepare for, and engage in, gainful employment to the extent of their capabilities.

SSA Responsibility

The *Social Security Act*³ authorizes SSA to pay State VR agencies for the costs of services they provide to disabled beneficiaries. The services⁴ provided by a State VR agency are identified in the *Rehabilitation Act of 1973*, as amended, Title I, Parts A and B,⁵ and are spelled out in an agreement between the disabled individual and the VR counselor in an Individualized Plan for Employment (IPE).

¹ *Rehabilitation Act of 1973*, Pub. L. No. 93-112, 87 Stat. 355 (1973).

² "State means any of the 50 States, the District of Columbia, the Commonwealth of Puerto Rico, the United States Virgin Islands, Guam, American Samoa, and the Commonwealth of the Northern Mariana Islands." *Rehabilitation Act of 1973*, Pub. L. No. 93-112, 87 Stat. 362 (1973); updated in 34 C.F.R. § 361.5(b)(48) (2014).

³ *Social Security Act*, 42 U.S.C. §§ 422 § (d) (2015) provides for authority to pay for the costs of rehabilitation services to Disability Insurance (DI) beneficiaries and *Social Security Act*, 42 U.S.C. §§ 1615 1382d (2015) provides the authority for payment of the costs of services provided to disabled or blind Supplemental Security Income (SSI) recipients.

⁴ VR services are any goods or services necessary to render a handicapped individual employable, including, but not limited to, (1) evaluation of rehabilitation potential; (2) counseling, guidance, referral, and placement services for handicapped individuals, including follow up, follow-along, and other post employment services; (3) vocational and other training services for handicapped individuals, which shall include personal and vocational adjustment, books, and other training materials, and services to the families of such individuals as are necessary to the adjustment or rehabilitation of such individuals; (4) physical and mental restoration services; (5) maintenance; (6) interpreter services for deaf individuals, and reader services for those individuals determined to be blind; (7) recruitment and training services; (8) rehabilitation teaching services and orientation and mobility services for the blind; (9) occupational licenses, tools, equipment, and initial stocks and supplies; (10) transportation in connection with the rendering of any vocational rehabilitation service; and (11) telecommunications, sensory, and other technological aids and devices. *Rehabilitation Act of 1973*, Pub. L. No. 93-112, §§ 103(a), 87 Stat. 368-370 (1973).

⁵ *Rehabilitation Act of 1973*, Pub. L. No. 93-112, 87 Stat.363-371, §§ 100-111 (1973). 29 U.S.C. §§ 720-731 (2014).

Although the VR program's primary focus is to help people who have disabilities return to work, SSA may pay for VR services when an individual continues with a VR program after SSA determines the person's disability ceased because of medical recovery.⁶ The VR program's goal is to increase the likelihood the individual will be removed permanently from the disability rolls.

Table 1 shows the number of VR payments and the respective amounts SSA paid for Fiscal Years (FY) 2010 through 2016.

Table 1: VR Payments from FYs 2010 Through 2016⁷

FY	Number of VR Payments	Amount of VR Payments
2010	7,805	\$106,468,482
2011	4,720	\$73,350,896
2012	5,402	\$79,262,645
2013	9,832	\$142,176,619
2014	9,722	\$142,349,710
2015	12,291	\$187,835,165
2016	11,932	\$181,403,973

State VR Agency Responsibility

SSA does not provide rehabilitation services. State VR agencies furnish these services. State VR agencies use existing rehabilitation definitions and practices to operate under regulations issued by the Department of Education's Rehabilitation Services Administration (RSA). Congress established the RSA as the principal Federal agency authorized to implement Title I - Vocational Rehabilitation Services of the *Rehabilitation Act of 1973*, as amended.⁸ The State VR agency assesses a person's rehabilitation potential, decides whether to accept the person as a client, notifies SSA if it accepts the person as a client, and arranges for VR services.

SSA's VR Reimbursement Process

The VR Reimbursement Process in effect at the time of this audit is detailed in Appendix A. In FY 2014, SSA made 9,722 reimbursement payments, totaling \$142.3 million, to the State VR agencies. We reviewed a sample of 100 VR reimbursement payments totaling about \$1.2 million. See Appendix B for a discussion of our scope and methodology and Appendix C for our sampling methodology and results.

⁶ SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 1, Section 1.5, p. 7 (updated January 12, 2012).

⁷ SSA provided the support for the number and amount of VR payments for FYs 2010 through 2014 in Table 1. These figures do not agree with those listed on SSA's Website, but the differences are immaterial.

⁸ *Rehabilitation Act of 1973*, Pub. L. No. 93-112, Sec. 3. (a), 87 Stat. 357 (1973).

RESULTS OF REVIEW

SSA did not (1) always verify beneficiaries met the primary conditions for reimbursement and (2) obtain required documentation (such as, cost-containment certifications).

VR Reimbursement Payments

We reviewed 100 reimbursement payments SSA made to State VR agencies in FY 2014 and determined SSA overpaid \$220,318 and underpaid \$10,522 of the reimbursement payments in our sample. SSA automatically recoups any identified improper payments made to State VR agencies from future payments. Therefore, based on our review, SSA recouped the \$220,318 in overpayments and paid the \$10,522 in underpayments. Since SSA recouped these amounts, we did not make a recommendation for this condition.

Based on the results of our review, we estimate SSA overpaid about \$22 million to State VR agencies (refer to Appendix C). We based our \$22-million estimate on a sample of 100 cases reviewed, which is 1 percent of the total cases processed in FY 2014.

Primary Conditions for Reimbursement

There are five primary conditions for reimbursing a provider for the costs of VR services.⁹

1. VR claims must be submitted in an acceptable form and within a specified time period.
2. The individual must be a DI beneficiary or SSI recipient based on disability or blindness when the services are provided.
3. The services must have contributed to the person achieving work at the substantial gainful activity (SGA) level¹⁰ for a period of 9 continuous months.
4. The services must be determined to be reasonable and necessary.

⁹ SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 5, Section 5.3, p. 41, and Chapter 1, Section 1.5, p. 8 (updated January 12, 2012).

¹⁰ The monthly SGA amount for statutorily blind individuals for 2014 was \$1,800. For non-blind individuals, the monthly SGA amount in 2014 was \$1,070. SSA, *POMS, DI-Disability Insurance*, ch. DI 105, subch. DI 10501.015, sec. B and C (October 2014). SGA for the blind does not apply to SSI payments, while SGA for the non-blind disabled applies to Social Security and SSI payments. SSA, *Substantial Gainful Activity*, p. 1 (June 12, 2014).

5. Savings to the Social Security DI trust funds and the SSI general revenue fund¹¹ generally must be achieved because the individual returns to work and reduces or eliminates benefit dependency.

We reviewed 100 VR claims to determine whether SSA appropriately reimbursed State VR agencies for services they provided to disabled beneficiaries and/or recipients. Specifically, we determined that 29 of the 100 sampled reimbursement payments SSA made to State VR agencies did not meet the primary conditions for reimbursement. Our review determined the State VR Agencies received \$220,318 in overpayments and \$10,522 in underpayments, as shown in Table 2.

Table 2 - Summary of Findings

Primary Condition	Description	Number of Findings	Questioned Overpayment Amount	Questioned Underpayment Amount
2	Individual not disabled	2	\$52,391	\$0
3	VR services did not contribute to SGA within 1 year	6	70,702	0
3	Individual did not achieve continuous period of SGA	5	44,236	0
4	VR costs were not within net payment period	5	31,148	(10,322)
4	VR costs were not appropriate or adequately supported	11	21,841	(200)
Total		29	\$220,318	(\$10,522)

Note: Our review of the supporting documents for the 100 VR claims identified these findings.

Condition 1 – Timeliness of VR Claims Submission¹²

The State VR agency mailed SSA an *SSA-199 Vocational Rehabilitation Provider Claim* for reimbursement within the required timeframe. Of 100 sampled VR claims, all the State VR agencies submitted claims before the 12-month deadline.

¹¹ SSA administers two programs that provide benefits based on disability: DI and SSI. SSA uses the DI trust fund to pay benefits to DI beneficiaries. The DI program provides for payment of disability benefits to individuals who are insured under the Act by virtue of their contributions to the Social Security trust fund through the Social Security tax on their earnings as well as to certain disabled dependents of insured individuals. SSA uses the SSI general revenue fund to pay SSI recipients. The SSI program provides SSI payments to disabled individuals (including children under age 18) who have limited income and resources. SSA, *Disability Evaluation Under Social Security, Part I - General Information, Program Description*, p. 1 (February 14, 2017).

¹² SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 5, Section 5.3, p. 41 (updated January 12, 2012).

Upon receipt, SSA manually entered the information from the claim form into SSA's Vocational Rehabilitation Reimbursement System (VRRMS).¹³ SSA reviewed the claim to determine whether State VR agencies met all requirements for reimbursement by using SSA's system to gather and manually input pertinent beneficiary data into VRRMS (that is, benefit entitlement periods, disability award code [blind or non-blind], medical recovery expectation, program benefit amounts, and earnings).

Condition 2 – Individual Must Be a DI Beneficiary or SSI Recipient¹⁴

An individual must be a DI beneficiary or SSI recipient when they receive VR services. We reviewed each VR claim in our sample to verify that all individuals received DI or SSI based on SSA records (such as the Master Beneficiary [MBR] and Supplemental Security Records [SSR]) when the VR agency provided services.

Because of manual input errors, we found that 2 of 100 individuals in our sample did not receive DI or SSI while the VR agency provided services. SSA agreed these individuals were not eligible for benefits. SSA recouped \$52,391 from the State VR agencies; therefore, we are not making a recommendation on this issue.

Condition 3 – VR Services Must Have Contributed to the Individual Achieving SGA¹⁵

SSA's determination as to whether VR services contributed to SGA depends on whether the continuous period of SGA began 1 year or less after VR services ended.¹⁶ We compared the date the VR services ended to the date SGA began determining whether the VR continuous period of SGA began 1 year or less after the period of VR services ended. Our review found six individuals in our sample did not meet SGA earnings within 1 year after the VR services ended.

If the continuous period of SGA was longer than 1 year after services ended, SSA considers whether the continuous period was preceded by transitional work activity (employment or self-employment that gradually evolved, with[out] periodic interruption, into SGA), and the work activity began less than 1 year after VR services ended.¹⁷ In five of the six claims, SSA paid the claims based on transitional work activity that led to SGA. For the sixth claim, SSA agreed there was no clear pattern of transitional work and sent the *C3 Letter: Request for Description of Services Provided* to the VR agency. Based on our review, there was limited transitional work activity for these six sample items. In one example, the VR service ended in

¹³ VRRMS was a stand-alone system built decades ago, and it had not received any major updates. SSA manually keyed all the VR information into VRRMS.

¹⁴ SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 1, Section 1.5, p. 8 (updated January 12, 2012).

¹⁵ SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 1, Section 1.5, p. 8 (updated January 12, 2012).

¹⁶ According to SSA's VR Provider Handbook, SSA will consider any VR services that significantly motivated or assisted the individual in achieving, or continuing in, SGA to have contributed to the continuous period if the VR continuous period of SGA began 1 year or less after the period of VR services.

¹⁷ 20 C.F.R. § 404.2111(a)(2)(i) (2014).

July 2009, and SGA began in April 2012. We determined this individual did not have earnings for 3 years (2009, 2010, or 2011). However, SSA considered this transitional work.

If transitional work activity did not precede the continuous period of SGA, SSA considers VR services to have contributed to the continuous period only if it is reasonable to conclude the work activity, which constitutes a continuous period, could not have occurred without the VR services (for example, training).¹⁸ In five of the six claims, SSA concluded the beneficiary would not have reached SGA without VR involvement (for example, training). We could not reasonably conclude that the work activity occurred because of the VR services; therefore, SSA recouped the combined amount of these six VR claims, totaling \$70,702, because they did not meet the primary condition for reimbursement. SSA has started requesting that State VR agencies submit such documentation as IPEs and case notes when they submit any cases with transitional work or if the claims seem questionable. SSA is adding this requirement to the VR Provider Handbook. We expect these new procedures to resolve this issue; therefore, we are not making a recommendation for further corrective action.

In addition, SSA must verify the individual met a continuous period of SGA, which is a period of 9 months of SGA within 12 consecutive calendar months.¹⁹ In 5 of the 100 VR claims we reviewed, the beneficiary did not achieve a continuous period of SGA. At the time of payment, SSA used quarterly State wages for these five claims to determine the continuous period of SGA. However, none of the earnings was on SSA's records (such as the MBR and SSR) years later because SSA no longer accepted State wages. Since none of the earnings was on SSA's records, SSA could not verify the individuals met the continuous periods of SGA. SSA recouped the combined amount of these five VR claims, totaling \$44,236; therefore, we are not making a recommendation for further corrective action.

Condition 4 – VR Services Must Be Reasonable and Necessary²⁰

SSA's procedures state it will reimburse a State VR agency for the costs of services that are

- necessary to determine an individual's eligibility for VR services or the nature and scope of the services to be provided and
- provided by a State VR agency under an IPE or similar document but only if the services could reasonably be expected to motivate or assist the individual in achieving or continuing SGA.

¹⁸ 20 C.F.R. § 404.2111(a)(2)(ii) (2014).

¹⁹ SSA, *POMS, DI-Disability Insurance*, ch. DI 135, subch. DI 13510.001, sec. C (May 1999).

²⁰ SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 1, Section 1.5, p. 8 (updated January 12, 2012).

SSA may reimburse the direct;²¹ administrative, counseling, and placement (ACP);²² tracking;²³ and other costs for VR services rendered to an individual during the net payment period.²⁴ We reviewed each VR claim in our sample to verify that all costs approved for reimbursement were within the respective net payment period. Our review found that, in 4 of the 100 VR claims, the Agency inappropriately reimbursed \$31,148 that was not within the net payment period. In one claim, we found the Agency inappropriately disallowed \$10,322 in direct costs that were within the net payment period. During the audit, SSA adjusted this sample claim and paid the State VR agency the \$10,322. SSA recouped the combined amount of these five VR claims, totaling \$20,826; therefore, we are not making a recommendation for further action.

State VR agencies are also required to retain adequate documentation of all services and costs for VR claims.²⁵ State VR agencies do not submit documentation to support their direct costs with each VR claim unless they are selected for a Prepayment Validation Review (PVR). SSA did not select these claims for a PVR; therefore, it did not have the itemized costs available for review when SSA allowed and paid the claims according to the direct cost allowed during the net payment period.

We requested the supporting documentation for direct costs in the sample from the applicable State VR agencies. We determined whether the costs were accurately reimbursed (that is, direct, ACP, tracking, and other costs) by recalculating the amount of costs based on (1) direct and other costs that were appropriate and adequately supported and aligned with the IPE goals and (2) ACP and tracking costs that SSA approved. We found 11 instances, totaling \$21,641, where the State VR Agency provided documentation; however, it did not support the direct cost paid or did not align with IPE goals. For three sample claims, the State VR Agency destroyed or could not provide the complete IPE; therefore, we questioned the entire VR claim (that is, direct, ACP, tracking, and other costs). Based on our review, SSA recouped the combined amount of these 11 VR claims, totaling \$21,641, because they did not meet a primary condition for reimbursement.

²¹ Direct costs are those the State VR agency incurred to purchase a specific item or service for an individual that are not paid for, or not payable, by some other source (for example, an insurance company). SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 5, Section 5.2 (B) 2. Item 11, p. 37 (updated January 12, 2012).

²² ACP costs are the indirect costs incurred during the net payment period. In addition, ACP costs are included for the month(s) after the State VR agency has closed the case and claimed costs for post-employment services. SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 5, Section 5.2 (B) 2. Item 12, p. 38 (updated January 12, 2012).

²³ Tracking costs are incurred to track or monitor an individual's work activity for up to 9 months. SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 5, Section 5.2 (B) 2. Item 13, p. 38 (updated January 12, 2012).

²⁴ A net payment period is the period that SSA can reimburse the VR agency for services it provided the disabled beneficiary and/or recipient. It starts with the date of entitlement or the VR enter date, whichever is later, and it ends with the last month of SGA or the VR closure date, whichever is earliest.

²⁵ 20 C.F.R. §§ 404.2108(f) and 416.2208(f) (2014).

Condition 5 – Savings to the Trust or General Funds Must Be Achieved²⁶

A primary condition for reimbursement is that SSA must achieve a savings to the trust or general funds because the individual goes to work and reduces or eliminates benefit dependency. Our review of 100 sample VR claims found that SSA calculated a savings to the trust fund for each VR claim in our sample. However, SSA inaccurately entered information from the MBR or SSR into VRRMS in 18 of the 100 VR claims, which had an immaterial effect on the savings to the trust fund calculation. Therefore, we are not making a recommendation on this issue.

Overall, SSA did not always determine that claims met the primary conditions for reimbursement before it paid them. In FY 2014, SSA’s claims process used VRRMS, which was a labor-intensive process. SSA manually entered the VR information into VRRMS. In addition, the VRRMS application did not receive feeds from other sources, such as the MBR or SSR; therefore, SSA manually entered this information into VRRMS. SSA’s conversion from VRRMS to the Internet Ticket Operation Support System (iTOPSS) should minimize the manual input errors identified above.

Conversion of VRRMS to iTOPSS Application

SSA identified limitations with VRRMS, a stand-alone system built decades ago that had not had any major updates. SSA manually keyed all the VR information into VRRMS. The VRRMS application did not receive feeds from other sources or provide information to other systems, such as the Social Security Online Accounting and Reporting System.²⁷

The Agency proposed converting VRRMS to iTOPSS as the solution to a longstanding, largely manual and antiquated process that was vulnerable to error. The Agency first proposed moving VRRMS to a mainframe application in 2010 as part of a cluster of resource intensive return to work-related changes it had been addressing incrementally. On September 18, 2014, SSA proposed to address these limitations by drafting a business process description for converting VRRMS to the iTOPSS application. Specifically, the business process description stated:

Automating and improving the vocational rehabilitation cost reimbursement process contributes to the agency’s strategic goal to Serve the Public through a Stronger, More Responsive Disability Program and the objective to enhance employment support programs. This project modernizes and consolidates VR payment processes and supports the integration of all Ticket to Work operations in one system by converting them from a stand-alone application to the Internet Ticket Operation Support System (iTOPSS) application. It minimizes technological and security risks. The current Vocational Rehabilitation Reimbursement System (VRRMS) is not connected to any other SSA system from which it requires information. In addition, it is the only application left in SSA in PowerBuilder, and there is little current expertise in

²⁶ SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 1, Section 1.5, p. 8 (updated January 12, 2012).

²⁷ The Social Security Online Accounting and Reporting System is SSA’s core accounting system.

PowerBuilder left in SSA. VRRMS uses its own built-in user-IDs and passwords in violation of current SSA authentication and authorization standards.

The Agency also explained the

. . . conversion of the VR payment process into iTOPSS will minimize paper-intensive steps in the process and use existing technology to automate VR payment claims. The VR agencies will have the option of sending payment claims to us through the system by entering the claim data via the Ticket portal or uploading an electronic file of claims data. This electronic receipt of claims will minimize the need for SSA staff to input claims data from the paper SSA-199. The system will verify the identity of the beneficiary regarding name, SSN, sex, and type of benefit(s). It will calculate payment amounts based on the claim and earnings data. To further minimize error, the system will require evaluation and review of all data fields and propagate alerts for information that must be entered or double-checked before proceeding.

Queries used to justify the decision on the claim will be stored electronically reflecting images of the master records at the time the case was processed.

While the VR payment functions will be in iTOPSS by the end of the fiscal year, [SSA] will allow time for [SSA staff] to learn the system, pilot it with some states before rolling it out and wrap up some final administrative paperwork by January 2017.

As of March 2017, SSA had implemented iTOPSS. Converting from VRRMS to iTOPSS should address the limitations with VRRMS. In addition, it also performs many of the checks and balances that previously required manual actions by the payment technician, which should minimize the types of error identified during this audit.

Quality Assurance Review

In accordance with regulations,²⁸ SSA conducts (1) prepayment validation reviews (PVR) and (2) post-payment reviews over the VR Reimbursement Program.

PVR

For program integrity purposes, SSA is required to conduct a validation review of a sample of reimbursement claims for payments filed by each State VR agency.²⁹ PVRs are SSA's preferred method of verifying that documentation requirements for claims submitted for reimbursement payments are appropriate.

SSA stated it selects a sample of VR claims for PVR from all State VR agencies based on a percentage of the total allowed claims processed in the previous FY. SSA selected an average of 1.34 percent of VR claims for PVR during FYs 2010 through 2014. We were unable to review the sample selection methodology for PVRs because SSA did not maintain it. We reviewed

²⁸ 20 C.F.R. §§ 404.2121(a) and 416.2221(a) (2014).

²⁹ See Footnote 28.

SSA's PVR Summary Reports from FYs 2010 through 2014 and found that, during this period, SSA processed 455 PVRs that saved \$92,168 (2.4 percent) in unallowable reimbursements.

In addition, SSA has an in-line Quality Assurance (QA) Review Team that randomly selects a set number of cases for review each month to identify and correct any errors before paying the VR agencies. The audited cases were not a part of the in-line QA process that SSA implemented in FY 2015.

Validation Reviews (Including Post-payment Reviews)

SSA stated there were numerous situations (subsequent claims, QA review findings, overlapping claims, etc.) during which it conducted post-payment reviews. During these reviews, SSA requested documentation from the VR agencies. Specifically, SSA stated, "Because these reviews are selected and performed outside of VRRMS, there is no way to systematically report on them." Therefore, we were unable to examine results of these reviews. SSA representatives stated that the Agency would address documentation of post-payment reviews with its migration to iTOPSS. As of March 2017, SSA had implemented iTOPSS. Finally, SSA stated, ". . . RSA and State Inspectors General also conduct regular audits of VR agencies and share those findings with us." We expect the conversion to iTOPSS to resolve this issue; therefore, we are not making a recommendation on this issue.

Documentation Requirements for State VR Agencies that Received Reimbursements

In addition to our review of 100 reimbursement payments, we reviewed the documentation requirements for State VR agencies that received reimbursements. State VR agencies are required to have a Department of Education RSA-approved State plan³⁰ and an SSA-approved cost formula each FY.³¹ In creating the cost formulas, State VR agencies are required to submit an RSA-2 Form, *Annual Vocational Rehabilitation Program/Cost Report* and RSA-113 Form, *Quarterly Cumulative Caseload Report*. The cost formula identifies the indirect costs for reimbursement, such as ACP and tracking. Furthermore, Federal regulations³² require that the State VR agency submit a written statement certifying that cost-containment policies are in effect and adhered to in procuring and providing goods and services for which the State VR agency requests payment.

We verified that all 69 State VR agencies that received reimbursements for VR services in FY 2014 had an approved State plan and approved cost formula for FY 2014. In addition, we verified that each State VR agency submitted the required RSA forms. However, SSA was unable to provide the cost-containment certification because SSA relied on the Department of

³⁰ Department of Education, *Rehabilitation Services Administration Program Monitoring*, VR State Plans, p. 1 (May 19, 2014).

³¹ SSA, *Vocational Rehabilitation Providers Handbook*, Chapter 1, Section 6.3, p. 94 (updated January 12, 2012).

³² 20 C.F.R. §§ 404.2117(c)(2) and 416.2217(c)(2) (2014).

Education to ensure the State VR agency submitted the cost-containment policies. Regulations³³ require that “. . . the State VR Agency submit to SSA before the end of the first quarter of each year a written statement certifying that cost-containment policies are in effect and are adhered to in procuring and providing goods and services for which the State VR agency requests payment . . .”

Based on our review, we determined that SSA did not obtain the State VR agency’s written statement certifying that cost-containment policies were in effect and adhered to in procuring and providing goods and services for which the State VR agency requested payment.

In an overall response to our audit findings, SSA stated,

We want to emphasize that the subject audit addressed the accuracy of payments made during FY 2014. FY 2014 represents a “perfect storm” in terms of workload and staff resources. Due primarily to the economic downturn of 2008, the number of claims and payments declined significantly after FY 2009. During the ensuing years, staff that left were not replaced and others were reassigned to high priority workloads elsewhere in [Office of Research, Demonstration, and Employment Support] ORDES. By the time the economy improved and the VR claims workload began to climb (FY 2013), we were faced with a hiring freeze and unable to obtain additional staff.

The impact of these factors on claims quality cannot be over-stressed. Quality initiatives and training had to be routinely deferred in order to maintain even a modicum of payment timeliness. During the audit period our pending claims reached 6,000 and our processing times exceeded 180 days. During [FY 2015,] we were finally able to recruit additional staff and our processing indicators returned to normal. We were able to implement an In-line QA review system which covers 250-400 claims per month. In addition to eliminating many incorrect payments, the results of these reviews are compiled and analyzed to support our training efforts.

Second, the incorrect payments cited in the report were all processed through the archaic claims system (VRRMS) that is in the process of being replaced. The current claims payment business procedure is a labor intensive paper laden process, which is dependent on the antiquated VRRMS system. When VR payments are shifted to our automated iTOPSS system in early 2017, the vast majority of the types of errors and issues noted in the report will be eliminated. We have been aware of VRRMS’ limitations and shortcomings for some time and iTOPSS was already being developed before this audit was announced.

CONCLUSIONS

SSA did not (1) always verify beneficiaries met the primary conditions for reimbursement, and (2) obtain required documentation (such as, cost-containment certifications). Specifically, 29 of the 100 sampled reimbursement payments SSA made to State VR agencies did not meet the primary conditions for reimbursement. The State VR agencies received \$220,318 in

³³ 20 C.F.R. §§ 404.2117(c)(2) and 416.2217(c)(2) (2014).

overpayments and \$10,522 in underpayments. SSA automatically recoups any identified improper payments made to State VRs from future payments; therefore, based on our review, SSA recouped the \$220,318 in overpayments and paid the \$10,522 in underpayments. Since SSA already recouped the overpayments we identified, we did not make a recommendation for further action on this condition. However, based on our sample results, we estimate SSA overpaid about \$22 million in FY 2014 reimbursement payments that did not meet the primary conditions for reimbursement (refer to Appendix C).

RECOMMENDATION

We recommend SSA obtain the State VR agencies' written certification that cost-containment policies were in effect and adhered to before paying for goods and services.

AGENCY COMMENTS

SSA agreed with our recommendation. For the full text of the Agency comments, see Appendix D.

OTHER MATTERS

During our review, we identified potential improvements to ensure the validity and accuracy of SSA's reimbursements to State VR agencies. This section provides additional information for the Agency to consider about the VR services reimbursement program.

Updating PVR and Savings to the Trust Fund Formulas

PVR Formula

For program integrity purposes, SSA is required to conduct validation reviews of a sample of reimbursement claims filed by each State VR agency.³⁴ SSA uses PVRs as its preferred method to verify that claims submitted for reimbursement are documented and appropriate. SSA selects its PVR cases based on a formula developed in the 1990s and programmed into VRRMS. We were unable to identify and gain an understanding of the PVR formula SSA used to select VR claims since the Agency did not document its methodology.

Savings to the Trust Fund Formula

The formula SSA used to calculate the savings to the trust fund for VR claims considers the age when the individual reached the 9th month of continuous SGA, gender, and monthly benefit payment amount(s) of the individual who received the VR services. An Office of the Chief Actuary staff member stated SSA had not updated the formula since the 1980s. VRRMS used the formula from the 1980s to calculate the savings to the trust fund. According to SSA's Office

³⁴ 20 C.F.R. §§ 404.2121(a) and 416.2221(a) (2014).

of the Actuary, the formula SSA used to calculate the expected savings to the trust fund could be understated because most people were staying on the rolls longer than they did, or were expected to, in the 1980s. In addition, SSA stated it based the formula on DI disabled workers and did not consider SSI disabled workers. However, SSA used the formula for both DI and SSI cases.

The Agency's calculation of the savings to the trust fund did not indicate savings to the trust fund. Rather, it represented both the (1) potential program savings to the trust fund and (2) maximum amount payable to the VR agencies from successful rehabilitation of a disabled worker. To gain a true representation of whether the VR services affected an individual's benefit dependency, we reviewed the DI and/or SSI payment status and benefit payment amounts (1) immediately after the VR services ended and (2) as of the date of our audit to determine whether there was a savings to the trust or general fund. We found 45 of 100 individuals' benefit payments did not decrease or cease after the State VR Agency rendered VR services. To gain a true representation of whether the VR services affected an individual's benefit dependency and a true savings to the trust fund, SSA needs to verify that the DI and/or SSI payment status and benefit payment amounts decreased or terminated during or after the State VR agencies rendered VR services.

Revising SGA Policy and Procedures

Per SSA, it considers reported earnings received other than on a monthly basis as secondary verification.³⁵ In addition, SSA states, "If you cannot determine a monthly breakdown of earnings using preferred or secondary verification, make a reasonable determination of earnings for a month, based on the available information and evidence."

- If you cannot obtain any information from the claimant or beneficiary and the only information you have is the annual amount, divide the annual amount by the number of months the beneficiary worked to obtain the monthly amount.
- Use quarterly wage information in the Office of Child Support Enforcement earnings data, if available, and divide quarterly postings by three to determine a monthly amount (unless the claimant or beneficiary alleges his/her work activity lasted less than 3 months).³⁶

Based on the Agency's guidance, staff appropriately used quarterly earnings to confirm the individual met SGA at the time of payment when monthly earnings were not available. Our sample identified 73 of 100 instances where SSA used quarterly earnings to expedite the VR reimbursement. The details are as follows.

- In 30 VR claims reviewed, the Agency used quarterly earnings to verify the individual met SGA because monthly earnings (at the time of our review) were not available.

³⁵ SSA, *POMS, DI-Disability Insurance*, ch. DI 105, subch. DI 10505.005, sec. C. 2. (March 6, 2015).

³⁶ SSA, *POMS, DI-Disability Insurance*, ch. DI 105, subch. DI 10505.005, sec. F (March 6, 2015).

- In 31 VR claims reviewed, the Agency used quarterly earnings to verify the individual met SGA and monthly earnings (available at the time of our review) confirmed the individual met SGA earnings.
- In 12 VR claims reviewed, the Agency used quarterly earnings to verify the individual met SGA, even though monthly earnings (available at the time of our review) indicated the individual had not met SGA. If monthly earnings had been reviewed when SSA approved the VR claims, the individuals would not have met SGA. As such, SSA would not have paid \$187,165 in VR claims because the individuals did not meet SGA.

We did not question these costs since the Agency was complying with its existing policies and procedures. However, if SSA had held the VR payments until monthly earnings were available to verify that the individuals met SGA, the Agency would have avoided making these payments.



Rona Lawson
Assistant Inspector General for Audit

APPENDICES

Appendix A – THE SOCIAL SECURITY ADMINISTRATION’S VOCATIONAL REHABILITATION REIMBURSEMENT PROCESS USING THE VOCATIONAL REHABILITATION REIMBURSEMENT SYSTEM

The Vocational Rehabilitation (VR) reimbursement process is as follows.

1. The State VR agency mailed the Social Security Administration (SSA) an *SSA-199 Vocational Rehabilitation Provider Claim* for reimbursement within the required timeframe.
2. Upon receipt, SSA manually entered the information from the claim form into SSA’s Vocational Rehabilitation Reimbursement System (VRRMS)¹ and placed it in the queue for review. This created a date stamp of receipt in VRRMS. SSA used the first-in, first-out method to process VR claims.
3. SSA reviewed the claim to determine whether State VR agencies met all requirements for reimbursement by using SSA’s system to gather and manually input pertinent beneficiary data into VRRMS (that is, benefit entitlement periods, disability award code [blind or non-blind], medical recovery expectation, program benefit amounts, and earnings). After review, SSA would
 - ✓ approve the claim (all or part);
 - ✓ deny the claim; or
 - ✓ request additional information.
4. Approved claims were subject to a Prepayment Validation Review (PVR). SSA randomly selected a sample of approved claims to ensure the accuracy of direct costs. In FY 2014, SSA performed 91 PVRs (approximately 1 percent) from 9,722 VR payments. SSA would request and review detailed supporting documentation for the PVRs. SSA submitted approved claims not selected for PVR and claims that pass the PVR for payment.
5. Since VRRMS was a standalone application, SSA generated a monthly payment action sheet (a hardcopy paper document). During the monthly closeout process, an analyst printed the payment action sheets for management review and signature and delivered it to SSA’s Office of Finance for payment purposes.
6. SSA’s Office of Finance re-keyed State VR agency information from the paper document into the Social Security Online Accounting and Reporting System² before it could process and trigger a VR payment to the Department of the Treasury.
7. The Office of Finance verified funds were available and sent the payments for processing.

¹ VRRMS was a stand-alone system built decades ago, and it had not received any major updates. SSA manually keyed all the VR information into VRRMS.

² The Social Security Online Accounting and Reporting System is SSA’s core accounting system.

Appendix B – SCOPE AND METHODOLOGY

To accomplish our objective, we:

- Reviewed applicable sections of the *Social Security Act*, public laws, and regulations related to the Vocational Rehabilitation (VR) Reimbursement Program.
- Reviewed the Social Security Administration's (SSA) Program Operations Manual System (POMS) for policies and procedures related to the VR Reimbursement Program.
- Reviewed SSA's VR Providers Handbook and training guide to gain an understanding of the VR reimbursement process.
- Interviewed personnel from SSA's Offices of Research, Demonstration, and Employment Support; Retirement and Survivors Insurance Systems; Finance; and Chief Actuary to determine their roles in the VR Reimbursement Program.
- Obtained the VR reimbursement payments and Prepayment Validation Reviews (PVR) made in Fiscal Years (FY) 2009 through 2014 from SSA's Vocational Rehabilitation Reimbursement Management System.
- Selected and reviewed a sample of 100 VR claims paid in FY 2014 to ensure the validity and accuracy of reimbursements (see sampling methodology in Appendix C).
- Projected the sampled FY 2014 reimbursement payments that did not meet the primary conditions for reimbursement to our population.

We conducted our audit at SSA Headquarters in Baltimore, Maryland, from January 2015 through March 2017. We determined the data used in this report were sufficiently reliable given our audit objective and their intended use. However, we were unable to identify and gain an understanding of the PVR formula SSA used to select VR claims because SSA did not document the PVR methodology, which SSA developed in the 1990s.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our objective. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our objective.

Appendix C – SAMPLING METHODOLOGY

In Fiscal Year (FY) 2014, the Social Security Administration (SSA) made 9,722 reimbursement payments for \$142.3 million to the State Vocational Rehabilitation (VR) agencies. We reviewed a sample of 100 VR reimbursement payments for \$1,174,207 as shown in Table C–1.

Table C–1: Population and Sample Size

Description	Number
Population	9,722
Sample Size	100

We determined the validity and accuracy of the VR reimbursement payment by measuring the following characteristics for each sampled VR reimbursement payments.

- Obtained SSA-199, *VR Provider Claim* form and verified that the State VR agency sent SSA the form within the required timeframe.
- Verified and recalculated the direct costs included on the SSA-199 by reviewing supporting documentation.
- Verified that the beneficiary/recipient listed on the SSA-199 was entitled to the vocational rehabilitation services for which SSA reimbursed the VR agency.
- Verified the beneficiary achieved work at the specified earnings level for the required time period.
- Verified the reimbursement payment did not exceed the individual's pre-determined savings to the trust fund calculation.

Our review determined that 29 of the 100 sampled reimbursement payments SSA made to State VR agencies did not meet the primary conditions for reimbursement. The State VR agencies received \$220,318 in overpayments and \$10,522 in underpayments, which total \$230,840 in total improper payments. Based on our sample results, we projected SSA overpaid about \$22 million for FY 2014 to the State VR agencies as shown in Table C–2.

Table C–2: Estimated Questioned VR Payments

	Number of VR Payments Questioned	Questioned VR Payments
Sample Results	29	\$230,840 ¹
Point Estimate	2,819	\$22,442,265
Projection Lower Limit	2,103	\$12,946,601
Projection Upper Limit	3,629	\$31,937,929

Note: Projections were calculated at the 90-percent confidence level.

¹ Since the questioned VR payments included upward adjustments, we used absolute values for projecting.

Appendix D – AGENCY COMMENTS



SOCIAL SECURITY

MEMORANDUM

Date: June 13, 2017 Refer To: S1J-3

To: Gale S. Stone
Acting Inspector General

From: Stephanie Hall /s/
Acting Deputy Chief of Staff

Subject: Office of the Inspector General Draft Report, “Vocational Rehabilitation Services Reimbursements for Supplemental Security Income and Disability Insurance Beneficiaries”
(A-15-14-14095) --INFORMATION

Thank you for the opportunity to review the draft report. Please see our attached comments.

Please let me know if we can be of further assistance. You may direct staff inquiries to Gary S. Hatcher at (410) 965-0680.

Attachment

**COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL DRAFT REPORT,
“VOCATIONAL REHABILITATION SERVICES REIMBURSEMENTS FOR
SUPPLEMENTAL SECURITY INCOME AND DISABILITY INSURANCE
BENEFICIARIES” (A-15-14-14095)**

Thank you for the opportunity to comment on the draft report. We are committed to protecting taxpayers' dollars and ensuring stewardship of Social Security programs and resources. We appreciate OIG's work in this area and for acknowledging that we have already recouped the overpayments and paid the underpayments identified by the audit. In 2017, we implemented automated claims processing enhancements that will eliminate the vast majority of the types of errors and issues noted in the report.

Recommendation 1

Obtain the State VR agencies' written certification that cost-containment policies were in effect and adhered to before paying for goods and services.

Response

We agree.

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