SOCIAL SECURITY

MEMORANDUM

Date: December 11, 2003 Refer To:

To: James C. Everett
Regional Commissioner
Denver

From: Assistant Inspector General
for Audit

Subject: Administrative Costs Claimed by the Colorado Disability Determination Services (A-15-03-13044)

The attached final report presents the results of our audit. Our objectives were to: 1) determine whether costs claimed by the State of Colorado Disability Determination Services (CO-DDS) on the *State Agency Report of Obligations for SSA Disability Programs* for the period October 1, 1999 through September 30, 2002, were allowable and properly allocated; 2) determine whether the aggregate of the Social Security Administration funds drawn down agreed with total expenditures for Federal Fiscal Years 2000, 2001 and 2002; and 3) evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as the draw down of SSA funds.

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 Frederick C. Nordhoff, Director, Financial Audit Division, at (410) 966-6676.

Steven L. Schaeffer

Attachment

cc:
Lenore R. Carlson, Associate Commissioner, Office of Disability Determinations
Jeffrey Hild, Associate Commissioner, Office of Policy and Financial Operations
Candace Skurnik, Director, Audit Management and Liaison Staff
William Starks, Director, Disability Determination Services
Marva Livingston Hammons, Executive Director, Colorado Dept. of Human Services

OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

ADMINISTRATIVE COSTS CLAIMED BY THE COLORADO DISABILITY DETERMINATION SERVICES

December 2003 **A-15-03-13044**

AUDIT REPORT

Mission

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

Authority

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

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

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

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

Vision

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

Executive Summary

OBJECTIVE

Our objectives were to: (1) determine whether costs claimed by the State of Colorado Disability Determination Services (CO-DDS) on the *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, (2) determine whether the aggregate of funds drawn down agreed with total expenditures for Federal Fiscal Years (FFY) 2000, 2001, and 2002, and (3) evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as the draw down of Social Security Administration (SSA) funds.

BACKGROUND

Disability determinations under SSA's Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction. Such determinations are to be performed in accordance with applicable Federal law and underlying regulations. In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized by SSA to purchase medical consultative examinations (CE) to supplement evidence obtained from the claimants' physicians or other treating sources. SSA reimburses the DDS for 100 percent of the allowable reported expenditures made on behalf of SSA.

RESULTS OF REVIEW

We found: 1) some of the costs claimed were not allowable and properly allocated, 2) the aggregate of funds drawn agreed with the total expenditures, and 3) several internal control weaknesses existed over the accounting for and reporting of administrative costs as well as the draw down of SSA funds.

The CO-DDS did not always adhere to SSA policies and procedures relating to CE costs. CO-DDS claimed reimbursement for missed CE appointments contrary to SSA instructions. We also found CE fees were paid in excess of its fee schedule and certain procedures on the CO-DDS fee schedule exceeded Medicare's approved rate – the highest allowable rate for the same or similar type service. Colorado also claimed reimbursement for indirect costs using outdated cost allocation plans and claimed costs that were not in the approved plan.

In addition, we noted certain internal control weaknesses related to accounting for and reporting of administrative costs. We found transactions recorded in the wrong FFY, cash draws for incorrect FYs, and weak internal controls over checks.

CONCLUSION AND RECOMMENDATIONS

We determined that SSA should be reimbursed for certain costs claimed by the CO-DDS. We also identified areas where internal controls were weak and could be improved.

We recommend the CO-DDS reimburse SSA a total of $272,830 for broken appointments (no shows) for CEs. SSA should work with CO-DDS in evaluating the reasonableness of its fee schedule. We also recommend the DDS reimburse SSA $237,059 for indirect costs erroneously allocated through the automated allocation process. Colorado should develop a process that would ensure the timely submission and approval of indirect cost allocation plans. In addition, we made recommendations to improve internal controls over the accounting for and reporting of administrative costs.

AGENCY COMMENTS

SSA agreed with nine of the eleven recommendations in our draft report. It did not agree with two recommendations. SSA disagreed with recommendation 1 for the CO-DDS to reimburse SSA for paying CEs in excess of its fee schedule. SSA stated that the contracts to certain providers should be included as part of the fee schedule. SSA also disagreed with recommendation 3 for the CO-DDS to stop paying for "no shows" and reimburse SSA for amounts paid for "no shows." SSA stated that it believes the CO-DDS pays an administrative fee, which is allowed, and this is simply an error in coding the costs. The full text of SSA's comments is included in Appendix C.

CDHS COMMENTS

CDHS agreed with seven of the eleven recommendations in our draft report and partially agreed with one recommendation. CDHS did not agree with three recommendations. The recommendations the CDHS disagreed with are recommendations regarding paying CEs in excess of the fee schedule, paying for "no shows," and refunding $237,059 to SSA caused by inconsistencies between the automated allocation process and the approved indirect cost allocation plan. CDHS also disagreed with our finding that CE fees were paid in excess of the Medicare fee schedule. However, we did not make a specific recommendation on this matter. The full text of CDHS' comments is included in Appendix D.

OIG RESPONSE

Based on comments from CDHS, we have withdrawn the recommendation regarding CEs paid in excess of the fee schedule. However, we continue to believe the fee schedule should be updated on an ongoing basis and rate changes should be documented. We commend the actions taken to compare the CO-DDS fee schedule to that of the Department of Labor. We did not change the recommendation regarding paying for "no shows." We continue to believe that the CO-DDS should obtain an

exemption if it wants to continue paying for “no shows.” Regarding the refund for indirect costs not properly allocated, we maintain that the allocation of services is not fair and reasonable, despite the plan being approved.

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Acronyms

ASAP	Automated Standard Application for Payments
CE	Consultative Examination
CFR	Code of Federal Regulations
CO-DDS	Colorado Disability Determination Services
CDHS	Colorado Department of Human Services
CPT	Current Procedural Terminology
DCA	Division of Cost Allocation
DDS	Disability Determination Service
DI	Disability Insurance
FFY	Federal Fiscal Year
Form SSA-872	The State Agency Obligational Authorization for Disability Programs
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
HHS	Department of Health and Human Services
IS	Information System
OD	Office of Disability
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
SFY	State Fiscal Year
SSA	Social Security Administration
SSI	Supplemental Security Income

Introduction

OBJECTIVE

Our objectives were to: (1) determine whether costs claimed by the State of Colorado Disability Determination Services (CO-DDS) on the *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; (2) determine whether the aggregate of the Social Security Administration (SSA) funds drawn down agreed with total expenditures for Federal Fiscal Years (FFY) 2000, 2001 and 2002; and (3) evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as the draw down of SSA funds.

BACKGROUND

The Disability Insurance (DI) program provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program is a nationally uniform program that provides income to financially needy individuals who are aged, blind and/or disabled. SSA implements the general policies governing development of disability claims under the DI and SSI programs. Disability determinations under the DI and SSI programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction. Such determinations are to be performed in accordance with Federal law and underlying regulations.

The CO-DDS is a component of the State of Colorado Department of Human Services (CDHS). Parent agencies, such as the CDHS, often provide administrative services to the State DDS agencies. These administrative services include accounting, purchasing, and personnel.

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 by SSA to purchase consultative examinations (CE) such as medical examinations, x-rays and laboratory tests to supplement evidence obtained from the claimants' physicians or other treating sources.[1]

SSA authorizes an annual budget to reimburse the DDS for 100 percent of allowable expenditures.[2] Once approved, the DDS withdraws Federal funds through the Department of Treasury's (Treasury) Automated Standard Application for Payments (ASAP) system. Cash is drawn from the Treasury to pay for program expenditures. At the end of each fiscal quarter, the DDS submits Form SSA-4513 to account for program disbursements and unliquidated obligations. Indirect costs are allocated according to

[1] 20 C.F.R. §§ 404.1614(a) and 416.1014(a) and POMS DI 39545.205.
[2] 20 C.F.R. §§ 404.1626 and 416.1026.

the CDHS Cost Allocation Plan, which is approved by the United States Department of Health and Human Services (HHS) on behalf of the Federal Government.

SCOPE AND METHODOLOGY

We reviewed the administrative costs the CO-DDS reported on its Form SSA-4513 for FFYs 2000 through 2002. For the periods under audit, we obtained evidence to evaluate recorded financial transactions in terms of it being allowable under the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and appropriateness, as defined by SSA's Program Operations Manual System (POMS).

As of September 30, 2002, the program obligations reported by CO-DDS on the Form SSA-4513s were as follows:

REPORTING ITEM	FFY 2000	FFY 2001	FFY 2002
Disbursements:			
Personnel	$ 7,138,787	$ 7,806,338	$ 8,723,770
Medical	3,336,005	3,941,408	3,727,909
Indirect Costs	1,348,727	1,269,133	1,195,575
All Other Non-Personnel	1,580,578	1,962,930	1,701,792
Less: State Medicaid Costs	0	(192,670)	(933,234)
Total Disbursements	13,404,097	14,787,139	14,415,812
Unliquidated Obligations:			
Personnel	0	0	2,754
Medical	0	14,136	636,388
All Other Non-Personnel	0	2	56,483
Total Unliquidated Obligations	0	14,138	695,626
Total Obligations:	$13,404,097	$14,801,277	$15,111,438

We also:

- Reviewed applicable Federal regulations and pertinent parts of POMS DI 39500, *DDS Fiscal and Administrative Management*;
- Reviewed audit work performed by the Colorado Office of the State Auditor;
- Interviewed staff at the CO-DDS and its parent agency, CDHS;
- Reviewed the CO-DDS policies and procedures and the Memorandum of Understanding between SSA and the CO-DDS for non-SSA work;

- Evaluated and tested internal controls over the accounting and reporting of the administrative costs claimed;
- Examined the administrative expenditures (personnel, medical services, indirect costs and all other non-personnel costs) incurred and claimed by the CO-DDS, on a test basis, for FFYs 2000 through 2002 on the Form SSA-4513;
- Reconciled the accounting records to the administrative costs reported by the CO-DDS on the Form SSA-4513;
- Analyzed CO-DDS' draw downs of SSA funds and the related internal controls, as well as reconciled them with reported expenditures;
- Conducted a physical inventory of capitalized assets of the CO-DDS;
- Analyzed data from the Colorado Financial Reporting System, maintained by CDHS and CE/medical evidence of record data on the Wang system, maintained by CO-DDS; and
- Tested the reliability of the data provided by the two above systems by conducting analytical tests, reconciling the amounts to the Forms SSA-4513, and tracing the data back to the source documentation.

We determined that computerized data used in the report was sufficiently reliable given the audit objectives and intended use of the data, and should not lead to incorrect or unintentional conclusions. We performed work in Denver, Colorado at the CO-DDS, the CDHS, and the Colorado Office of the State Auditor. We conducted our fieldwork from October 2002 through June 2003. The audit was conducted in accordance with generally accepted government auditing standards.

Results of Review

We found: 1) some of the costs claimed were not allowable and properly allocated, 2) the aggregate of funds drawn agreed with the total expenditures, and 3) several internal control weaknesses existed over the accounting for and reporting of administrative costs, as well as the draw down of SSA funds.

Our review of administrative costs claimed by the CO-DDS disclosed that the DDS improperly paid for missed appointments for CEs, and paid CE fees in excess of its fee schedule and in excess of the highest allowable (Medicare) fees. Colorado was also reimbursed for indirect costs based on unapproved cost allocation plans and costs claimed that were not in the approved plan.

We also identified several internal control weaknesses involving accounting for and reporting of administrative costs. We found there were: 1) transactions recorded in the wrong FFY, 2) cash draws charged to the incorrect FFY, and 3) weak internal controls over the safeguarding of checks.

CONSULTATIVE EXAMINATIONS

The DDS obtains medical information necessary to determine if the applicant meets the eligibility criteria for DI or SSI benefits. When existing medical evidence is insufficient, not available or cannot be obtained, the DDS is authorized to purchase a CE. The DDSs establish fee schedules for each procedure it purchases. Each procedure in the fee schedule is identified by a Current Procedural Terminology (CPT) code.[3]

We identified three issues relating to unallowable CO-DDS' payments for CEs. First, medical providers were paid in excess of the CO-DDS's fee schedule. Second, certain fees on the CO-DDS fee schedule exceeded the highest allowable rate. Lastly, CO-DDS was paying medical providers for broken appointments.

FEES PAID IN EXCESS OF FEE SCHEDULE

We found that CO-DDS had paid for CE fees in excess of its own CE fee schedule. SSA's POMS[4] states:

> "The State will determine the rates of payment for medical or other services that are necessary to make a disability determination. The DDS will consider its fee schedule as a maximum payment schedule. Authorized payments will represent the lower of either:
> - the provider's usual and customary charge or,
> - the maximum allowable charge under the fee schedule."

[3] The term is defined by the American Medical Association and is used to identify each procedure in the fee schedule.

[4] POMS DI 39545.210 1.a. and b.

The following table shows the excess fee amounts that were paid for consultative examinations during the 3-year period of our review.

Federal Fiscal Year	Amount Paid in Excess of the CO-DDS Fee Schedule
2000	$76,050
2001	111,505
2002	185
Total	$187,740

For example, in FFY 2000 and FFY 2001 CO-DDS CPT code 2–comprehensive examination–internist had an established fee of $105. We found that the CO-DDS paid between $110 and $150 for this examination.

During our audit, we noted the CO-DDS did not update its fee schedule for CEs from October 1, 1989 to October 1, 2001. The CO-DDS had been alerted to this issue earlier. The Colorado State Auditor's Office issued an audit report dated October 31, 1997,[5] which stated that although the CO-DDS had a fee schedule, this schedule was established 9 years ago and may not appropriately reflect current rates. We found that the CO-DDS continued to use this outdated fee schedule for 4 more years. Although the fee schedule had not been updated, it was the fee schedule in effect for our audit period.

FEES PAID IN EXCESS OF MEDICARE

We found that the CO-DDS paid CE fees in excess of Medicare fee schedules by $1,126,171[6] during FFYs 2000 through 2002,[7] based on a query of CO-DDS' records. According to Federal regulations[8], the rates of payment used by the State may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar type of service. In addition, POMS[9] states, "The State will maintain documentation to support the rates of payment it uses." The CO-DDS did not maintain a fee schedule that was relative to other State or Federal agencies. Nor did the CO-DDS maintain documentation to support the fee schedules in effect during our audit period. Because no other Colorado State agency used a similar fee schedule, we compared the CO-DDS fee schedule to a federally established fee schedule, *Medicare Physician Fee Schedules,*[10] to determine the reasonableness of CE fees.

[5] State of Colorado, State Auditor's Office, *Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-133*, October 31, 1997.
[6] The amount of fees reported as excess of Medicare fees are exclusive from those fees reported above as in excess of the CO-DDS fee schedule.
[7] We used actual fees paid (which often differ from scheduled fees) to calculate this number.
[8] 20 C.F.R. §§ 404.1624 and 416.1024.
[9] POMS DI 39545.210 1.c.
[10] Department of Health and Human Services, Centers for Medicare and Medicaid Services, *Medicare Physician Fee Schedule*.

Federal Fiscal Year	Fees Paid in Excess of Medicare Fees
2000	$231,187
2001	288,901
2002	606,083
Total	$1,126,171

As an example, in FFY 2000 CPT code 731--speech and language evaluation--had an established fee of $100. The Medicare fee for this service for Calendar Year 2000[11] was $62.14. The CO-DDS fee exceeded the allowable (Medicare) fee by $37.86.

An October 31, 1997, State Auditor's report indicated that the Division of Disability Determination Services is not adequately monitoring its fees. Specifically, the report read:

> "…staff reported that they sometimes make informal case-by-case adjustments to the fees based on limited availability of physicians in some geographic areas and the specialization that a procedure may require. … we noted that federal regulations provide that fees paid for medical procedures should not exceed the highest rates paid by federal or other state agencies for the same or similar types of service. However, Division staff indicated that they do not monitor for this requirement when higher fees are paid than those set out in the fee schedule."[12]

The CO-DDS sent a letter to the SSA Regional Commissioner on April 9, 1999, addressing some of the issues in the State Auditor's report. The letter stated that, "The review of current fee schedule is completed.… This fee revision is in process. It will include a comparison with Medicaid maximum fees allowable…." During our audit, we found no documentation that the comparison with Medicaid fees exercise was ever completed. As stated earlier, the CO-DDS fee schedule was not revised until September 28, 2002.

In January 1999, SSA's Office of Disability (OD) convened a workgroup to provide guidance for establishing fee schedules for medical procedures.[13] The workgroup stated that each State should be cost-efficient and make every attempt to negotiate fees below the highest allowable rates. However, the workgroup concluded that the maximum payment rates shall be based on the Medicare fee schedule for the same or similar types of service.

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[11] The Medicare Physician Fee Schedule is on a calendar year basis. Our review was based on Federal Fiscal Year. Therefore, for test purposes we used the Medicare fee in effect at the time of each transaction reviewed.

[12] State of Colorado, State Auditor's Office, *Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-133*, October 31, 1997.

[13] SSA, Office of Disability, *Medical Procedures Fee Schedule Workgroup Report*, January 1999.

CONSULTATIVE EXAMINERS PAID FOR MISSED APPOINTMENTS

In 1987, the HHS Office of Inspector General (HHS/OIG) reported[14] that 28 States, including Colorado, were paying for broken CE appointments. The HHS/OIG recommended to SSA that it pursue a policy that would preclude payment for broken CE appointments. SSA agreed with the HHS/OIG's recommendation. In a 1996 follow-up audit,[15] SSA/OIG found that 17 States were paying for broken CE appointments. In that report, SSA/OIG recommended that SSA implement a policy to only pay for services rendered. SSA agreed with the recommendation.

CO-DDS Did Not Follow SSA Policy for Missed Appointments

On April 25, 2000, SSA issued Disability Determination Services Administrator's Letter No.536, regarding the no-pay policy for missed CE appointments. The letter allowed for case-by-case exemptions for unique situations. The DDS was to work with the SSA regional office to prepare a request and submit the request along with supporting documentation to the OD for final approval. OD informed us that, as of April 2003, it had not received such a request from the CO-DDS.

CO-DDS' policy was to pay providers for a review of medical records if the CE appointment was cancelled 24 hours or less before the appointment date. CO-DDS stated that the payment was for the medical providers' review of records. We reviewed invoices submitted for "no shows." The majority of the invoices reviewed only had "no show" written on them and did not contain a request for payment for administrative review.

The CO-DDS refers to these appointments as "no shows," and uses CPT code 999 to record these fees at a cost of $25. We queried the CO-DDS' records for CPT code 999 and determined that 10,837 payments for missed appointments were made to providers amounting to $272,830 during the 3-year period of our review.

FEDERAL FISCAL YEAR	NUMBER OF CODE 999 CES	AMOUNT PAID
2000	3,732	$93,875
2001	3,575	90,230
2002	3,530	88,725
Total	10,837	$272,830

[14] HHS/OIG, *Payments under the Disability Determination Program for Medical Appointments Broken by Claimants of Disability Insurance and Supplemental Security Income* (A-01-87-02004), October 1987.
[15] SSA/OIG, *Follow-up Audit Payments under the Disability Determination Program for Medical Appointments Broken by Claimants of Disability Insurance and Supplemental Security Income* (A-01-95-02007), July 1996.

COST ALLOCATION PLANS

The DDS must report all indirect costs that the State government has charged against the disability program for costs incurred during the period covered by the report.[16] The CDHS used a cost allocation plan[17] to allocate indirect costs. OMB Circular A-87 requires each State to submit a plan to the HHS for each year in which it claims central service costs under Federal awards.[18]

We found that CO-DDS had not submitted timely revisions to its cost allocation plans for approval and the automated allocation process for an approved plan was not strictly followed.

SUBMISSION OF COST ALLOCATION PLANS

The CDHS has not Submitted Cost Allocation Plans in a Timely Manner

The CDHS did not submit its State Fiscal Year (SFY) 2001 or SFY 2002 Public Assistance Cost Allocation Plans in a timely manner. The Colorado SFY ends on June 30 each year. The SFY 2001 cost allocation plan was not submitted for approval until February 22, 2002 – nearly 8 months after the close of the SFY. The SFY 2001 cost allocation plan was approved on July 30, 2002 – 13 months after the close of the SFY. The SFY 2002 cost allocation plan was not submitted for approval until May 23, 2003 – nearly 11 months after the close of the SFY. As of June 30, 2003, the Director, Division of Cost Allocation (DCA) had not yet approved the SFY 2002 cost allocation plan.

The Code of Federal Regulations (CFR), Title 45, section 95.509 states that:

> "(a) The State shall promptly amend the cost allocation plan and submit the amended plan to the Director, DCA [Division of Cost Allocation] if any of the following events occur:
>
> > (1) The procedures shown in the existing cost allocation plan become outdated because of organizational changes, changes in Federal law or regulations, or significant changes in program levels, affecting the validity of the approved cost allocation procedures…
>
> (b) If a State has not submitted a plan or plan amendment during a given State fiscal year, an annual statement shall be submitted to the Director, DCA certifying that its approved cost allocation plan is not outdated. This statement shall be submitted within 60 days after the end of that fiscal year."

The CDHS made organizational changes that impacted the cost allocation plans. Specifically, the management oversight of the DDS moved from the Office of Direct

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[16] *POMS DI 39506.210 D.3.*

[17] *According to OMB Circular A-87, Attachment A, B.10, a cost allocation plan means a central service cost allocation plan, public assistance cost allocation plan, and indirect cost rate proposal.*

[18] *OMB Circular A-87, Attachment C, D.1.*

Services to the Office of Self Sufficiency. Therefore, the SFY 2001 plan was outdated because of organizational changes in SFY 2002 and SFY 2003 which would also preclude the CDHS from submitting "an annual statement" certifying that the approved SFY 2001 cost allocation plan is not outdated. The FFY 2001, 2002, and 2003 indirect costs were allocated to the CO-DDS based on the outdated FFY 2001 approved indirect cost allocation plan. Therefore, there is a risk the indirect costs will be improperly allocated to the CO-DDS when the CDHS does not have a current approved cost allocation plan.

Code of Federal Regulations, Title 45, section 95.519 states, "If costs under a Public Assistance program are not claimed in accordance with the approved cost allocation plan…, or if the State failed to submit an amended cost allocation plan as required by Sec. 95.509, the costs improperly claimed will be disallowed." Therefore, a maximum of $2,173,725 may be disallowable for SFY 2002 and SFY 2003, as follows.

FFY 2001 (Fourth quarter only)	$358,898
FFY 2002 (All quarters)	1,170,681
FFY 2003 (First and Second quarters)	644,146

Note: The fourth quarter of FFY 2001 is the first quarter of SFY 2002 (July 2001 through September 2001).

As the SFY 2002 and SFY 2003 cost allocation plans are submitted and approved, SSA should review the plans and determine how much of this potentially disallowable indirect cost is allowable and properly allocated to the CO-DDS.

AUTOMATED ALLOCATION PROCESS

The CDHS used an automated software package to allocate costs under its indirect cost allocation plan. The CDHS did not accurately update the automated software in accordance with the approved SFY 2000 and SFY 2001 indirect cost allocation plans. Therefore, for SFY 2000 and SFY 2001, the automated allocation was not consistent with the approved indirect cost allocation plans. Also, the approved SFY 2000 and SFY 2001 indirect cost allocation plan allocated indirect costs to the DDS in a manner not consistent (rational correlation) with the amount of benefit received. The CDHS should ensure that the indirect cost allocation method used (manual or automated), is implemented in accordance with the approved indirect cost allocation plans and that the cost allocation plan allocates cost to the DDS in rational correlation to the amount of benefit received.

The total amount disallowed for all 6 years as a result of this finding is $237,059 as follows:

Federal Fiscal Year	Automated Allocation Process Erroneously Implemented
1996 (4th Qtr)	$5,689
1997	22,303
1998	25,178
1999	30,828
2000	112,783
2001	40,278
Total	$237,059

Note: The fourth quarter of FFY 1996 is the first quarter of SFY 1997 (July 1997 through September 1997).

For FFYs 2000 and 2001, we questioned $112,783 and $40,278 of the indirect costs claimed, respectively. We only questioned costs during the first 3 quarters of FFY 2001 because we addressed FFY 2001 fourth quarter costs and the FFY 2002 costs under a previous finding, *Submission of Cost Allocation Plans.* We found the automated software erroneously allocated building lease costs and building services to the CO-DDS for a building it did not use. In addition, the software erroneously excluded some divisions that should have been allocated costs, and erroneously included others that should not have been allocated costs. We netted the impact of these errors to arrive at our questioned costs.

As a result of the issues identified for these 2 years, we expanded the scope of our review to determine the impact on prior years. For FFY 1996 through FFY 1999, we questioned $83,998 of the indirect costs claimed. We reviewed costs allocated back to the fourth quarter of FFY 1996 (the first quarter of SFY 1997). Prior to that time the CDHS used an allocation rate rather than a cost allocation plan. We again found building services were erroneously allocated to the CO-DDS for a building it did not use for FFY 1996 through FFY 1999.

ALL OTHER NON-PERSONNEL COSTS

The category for "All Other Non-personnel Costs" includes occupancy (leases), contracting, electronic data processing equipment and maintenance, communication, travel, supplies, and miscellaneous costs. These costs are reported as obligated on a separate line item on the Form SSA-4513. An obligation should be recorded in the

appropriate funding year.[19] For example, POMS states, in part, that "…the monthly rental obligation should be obligated at the beginning of each month…."[20]

CO-DDS did not follow these POMS requirements. For the 3 FFYs we reviewed, we found 31 transactions totaling $119,179.88 were recorded in the wrong FFY. These transactions were for various items such as lease payments and equipment maintenance. Based on the items we reviewed, the following net adjustments should be made:

Federal Fiscal Year	Amount of Adjustment Needed
1999	$23,565
2000	(85,085)
2001	30,836
2002	30,684

Each FFY SSA gives the DDS an obligational authority which is a monetary limit approved for State agency obligations to be incurred for SSA disability program operations. Recording transactions in the wrong FFY will cause the balance of the obligational authority to be misstated. We did not complete a 100 percent review of items in this area and, as a result, there may be additional items recorded in the wrong FFY that were not identified by our review. Additional adjustments would be required for these items.

CASH DRAWS

The State Agency Obligational Authorization for Disability Programs (Form SSA-872) is the official document that authorizes the State to incur obligations against Federal funds to meet its approved necessary costs.[21] The Form SSA-872 notifies the State agencies of the funding that may be obligated or expended by the State and the dates covered by the funding.[22] The State agency uses the ASAP system to draw funding from Treasury for program expenditures for CO-DDS. Based on changes on the Form SSA-872, SSA initiates the transactions to increase/decrease available funds in ASAP for the CDHS to draw. The Form SSA-872 and accumulated authorizations in ASAP should agree. On September 30, 2002, the accumulated authorizations in ASAP did not agree with the authorizations reported on the Form SSA-872 for FFY 2000 when both reports were compared. We found $50,670 more in authorizations for FFY 2000 in ASAP than reported on the Form SSA-872 as of September 30, 2002.

We further found two draws made on December 1, 2000, applied to the wrong FFY. One draw of $61,949 for FFY 2001 expenses was drawn from FFY 2000 funds. A

[19] POMS DI 39506.200 B.1.
[20] POMS DI 39506.201 E.3.
[21] POMS DI 39506.100 A.1.
[22] Id.

second draw of $8,418 for FFY 2000 expenses was drawn from FFY 2001 funds. As a result, the balance in ASAP for both FFYs was misstated – FFY 2000 understated and FFY 2001 overstated – by the net difference, $53,531. The errors remained undetected until we brought it to the attention of the CDHS. The CDHS took immediate corrective action. CDHS stated that the person performing the draws was new to the operation, and they further stated that steps were taken to improve the internal controls process of the cash draws for current years.

Additionally, after the incorrect transactions on December 1, 2000, SSA reduced the CO-DDS authorization on the SSA-872 for FFY 2000. However, there were not enough funds in ASAP to reduce the authorization for the entire amount. SSA only made a partial reduction of the authorization effectively bringing the net amount in ASAP to zero balance. SSA did not follow up with the CDHS to determine why the SSA-872 authorizations for FFY 2000 did not agree with authorization in ASAP for FFY 2000. However, once the CDHS made its correction, SSA then reduced the authorization amounts in ASAP for FFY 2000.

INTERNAL CONTROLS OVER CHECKS

The CO-DDS did not use direct deposit to pay for medical evidence, consultative examinations, or claimant travel. Checks were printed by the State accounting office, at the instruction of the DDS. The State Accounting Office then sent the checks to the DDS, not directly to the payee. We found internal control weaknesses in the handling of these checks. These issues could be avoided if direct deposit was used. Direct deposit is used by the State of Colorado for other items such as DDS employee travel reimbursement.

CHECKS TO PAYEES

On a rotating schedule, one person in the DDS received the checks from the State Accounting Office, verified their accuracy, and mailed the checks to the payee. This work was performed at an individual's desk and there was no check log. The checks handled totaled approximately $3.4 million for FFY 2000, $4.0 million for FFY 2001, and $3.8 million for FFY 2002.

The General Accounting Office's *Standards for Internal Control in the Federal Government* states, in part, that:

> "…key duties and responsibilities need to be divided or segregated among different people to reduce the risk of error or fraud. This should include separating the responsibilities for authorizing transactions, processing and recording them, reviewing the transactions, and handling any related assets. No one individual should control all key aspects of a transaction or event." [23]

Without strong internal controls, which include segregation of duties, checks are susceptible to theft and/or loss.

[23] GAO/AIMD-00-21.3.1 page 14.

UNDELIVERED CHECKS

When undelivered checks were returned to the DDS, they were sent to the information services (IS) department. The IS department researched the checks and tried to find a good address. The checks were then re-mailed. We noted that the undelivered checks were not stamped non-negotiable nor were they recorded in a check log upon receipt in the DDS. If a check got lost or were stolen, there would be no record of the returned check, allowing the loss or theft to go undetected.

OMB Circular Number A-123, *Management Accountability and Control,* states, in part, that "…management controls must provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation."[24] Without strong internal controls, checks are susceptible to theft and loss.

OTHER MATTERS

SSA has identified other instances of DDSs using unlicensed/uncertified medical providers to perform CEs. We did not test for use of unlicensed/uncertified medical providers as part of this audit. However, we are bringing the issue to CO-DDS management's attention and are advising them to take the appropriate steps to ensure that they are only using the services of licensed/certified medical providers.

[24] OMB Circular A-123, Attachment II, *Establishing Management Controls*, June 21, 1995, p. 6.

Conclusions and Recommendations

We determined that SSA should be reimbursed for certain costs claimed by the CO-DDS. We also identified areas where internal controls were weak and could be improved.

We recommend SSA instruct the CO-DDS to:

1. Stop paying for CEs in excess of CO-DDS' established fee schedule and reimburse SSA $187,740 for the excess payments made during our review. Further, the CO-DDS should calculate excess payments for FFY 2003 and reimburse SSA for that amount. (BASED UPON CDHS' COMMENTS, THIS RECOMMENDATION IS BEING WITHDRAWN AND REPLACED WITH RECOMMENDATION 12.)

2. Update its fee schedule in accordance with POMS on an ongoing basis. Further, the methodology for establishing and updating rates of payment should be documented and maintained.

3. Stop paying for "no show" appointments or apply for an exemption and reimburse SSA for the $272,830 paid for "no shows" for FFYs 2000 through 2002 and any subsequent payments for FFY 2003.

4. Ensure that the method CDHS uses to allocate the indirect costs is consistent with the approved indirect cost allocation plan and more precise descriptions of the allocation methodology are provided.

5. Ensure the CDHS submits its cost allocation plans to HHS for SFY 2003 immediately. When the SFY 2002 and 2003 plans are approved, SSA and the CDHS need to ensure that the $2,173,725 in indirect costs already claimed have been paid in accordance with the approved plans. SSA should ensure that any amounts it determines to be unallowable or not properly allocated in accordance with approved plans are refunded to SSA or offset against subsequent claims.

6. Ensure the CDHS develops a process to submit future cost allocation plans timely to HHS for approval. SSA should proactively ensure that the cost allocation plans are submitted in a timely manner and properly implemented.

7. Refund $237,059 to SSA caused by inconsistencies between the automated allocation process and the approved indirect cost allocation plan.

8. Record obligations in accordance with POMS and adjust the accounting records for all other non-personnel costs.

9. Instruct the CDHS to emphasize better internal controls to ensure that the cash draws are posted to the correct FFY.

10. Consider using direct deposit to pay its vendors. In the meantime, internal controls over paper checks should be strengthened by ensuring there is a segregation of duties and a check log.

We recommend SSA:

11. Improve its oversight of CE fees and limit future payments to the highest rate allowed by Federal or other agencies in the State.

12. Seek an Office of General Council legal opinion as to whether individual negotiated contracts for consultative examinations constitute a fee schedule in accordance with POMS and Federal regulations. After this is done, OD should establish a policy on contracts with vendors and individuals for consultative examinations and ensure that the policy is implemented consistently across SSA regions.

AGENCY COMMENTS

SSA agreed with nine of the eleven recommendations in our draft report. It did not agree with two recommendations. SSA disagreed with recommendation 1 for the CO-DDS to reimburse SSA for paying CEs in excess of its fee schedule. SSA stated that the contracts to certain providers should be included as part of the fee schedule. SSA also disagreed with recommendation 3 for the CO-DDS to stop paying for "no shows" and reimburse SSA for amounts paid for "no shows." SSA stated that it believes the CO-DDS pays an administrative fee, which is allowed, and this is simply an error in coding the costs. The full text of SSA's comments is included in Appendix C.

CDHS COMMENTS

CDHS agreed with six of the eleven recommendations in our draft report and partially agreed with one recommendation. CDHS did not agree with three recommendations. The recommendations the CDHS disagreed with are recommendations regarding paying CEs in excess of the fee schedule, paying for "no shows," and refunding $237,059 to SSA caused by inconsistencies between the automated allocation process and the approved indirect cost allocation plan.

CDHS partially agreed with recommendation 2 regarding updating and documenting its fee schedule. CDHS believes there is adequate documentation for the DDS fee schedule, and noted that SSA is provided annual CE oversight reports. However, CDHS stated that it has initiated a more formal procedure to review the fee schedule at the end of the Federal FY and notify SSA of any changes. In addition, CDHS took exception to our finding that CE fees were paid in excess of the Medicare fee schedule. CDHS felt that Medicare rates were not comparable to the CO-DDS rates. However, we did not make a specific recommendation on this matter.

CDHS disagreed with reimbursing SSA for paying CEs in excess of its fee schedule. It stated that the CO-DDS uses bid contracts for any vendor whose services are likely to exceed $25,000 in the FY. The CO-DDS considers the bid contracts in force to be included in the "fee schedule" for services provided by vendors. Therefore, CEs that were paid according to the bid contracts were not in excess of the fee schedule. CDHS also disagreed with our recommendation to discontinue paying for "no shows." It stated that SSA regulations allow for reasonable administrative fees. Lastly, CDHS disagreed with our recommendation to refund $237,059 due to inconsistencies in implementing the indirect cost allocation plan. CDHS believes that the allocation in question adheres to the approved cost allocation plans.

The full text of CDHS' comments is included in Appendix D.

OIG RESPONSE

Regarding recommendation 1, CDHS stated that the CO-DDS has separate contracts with vendors with established fees that are part of the CO-DDS fee schedule. However, at the time of our field work the CO-DDS provided the "general fee schedule" as the official fee schedule. We do not agree that individual negotiations with individual doctors constitute a fee schedule. However, because the CO-DDS demonstrated that the SSA regional office was aware of these individual negotiated contracts, we have withdrawn our recommendation. However, we still maintain that the CO-DDS needs to update its general fee schedule in accordance with POMS on an ongoing basis as stated in recommendation 2. The methodology for establishing and updating rates of payment should be documented and maintained. Lastly, SSA needs to seek an Office of General Counsel legal opinion on the issue of allowing individual negotiated contracts for consultative examinations to determine if this in fact constitutes a fee schedule in accordance with POMS. We have added a recommendation addressing this issue.

Regarding recommendation 2 and our finding that CE fees were paid in excess of the Medicare fee schedule, the CDHS did not agree with comparing the CO-DDS fee schedule to the Medicare fee schedule. However, subsequent to our audit, the CO-DDS sent the SSA regional office its updated fee schedule compared to the fee schedule published by the Department of Labor for the last 4 years. This comparison is acceptable in accordance with Federal regulations,[25] which permit the use of fee schedules where the rate does not exceed the highest rate paid by Federal or other agencies in the State for the same or similar type of service.

Regarding recommendation 3, CDHS maintains that that the fee paid for "no show" appointments is an administrative fee paid for costs incurred prior to the actual examination. However, during our fieldwork, we reviewed invoices submitted for "no shows." The majority of the invoices reviewed only had "no show" written on them and did not contain a request for payment for review of medical records. If the CO-DDS wants to continue the practice for paying for "no shows" we recommend it follow the directive issued on April 25, 2000, and request an exemption to the no-pay policy from the Office of Disability.

[25] 20 C.F.R. §§ 404.1624 and 416.1024.

Regarding recommendation 7, the CDHS' comments did not address the inconsistencies between the automated allocation process and the approved cost allocation, but instead only addressed whether the indirect costs allocated to the CO-DDS are consistent with the amount of benefit received. The CDHS refers to services provided at its building in Denver, Colorado including building and grounds maintenance, custodial, and laundry/linen services. The CDHS believes that these services are appropriately allocated to the CO-DDS. In our opinion, the allocation of these services to the CO-DDS based on full time equivalent employee counts is not fair or reasonable despite the fact that it was approved by DCA. We do not believe that the services provided at the CDHS building in Denver, Colorado benefit the employees of the CO-DDS in Aurora, Colorado. In addition, the FY 2000 and 2001 Public Assistance Cost Allocation Plans correctly did not allocate the lease costs for the CDHS building to the CO-DDS. It is not reasonable to exclude the lease costs for the CDHS building from allocation, but still allocate the services associated with that building to the CO-DDS.

Appendices

April 25, 2000
SOCIAL SECURITY ADMINISTRATION
OFFICE OF DISABILITY

DISABILITY DETERMINATION SERVICES ADMINISTRATORS' LETTER NO.536

TO : State Disability Determination Services Administrators

SUBJECT: SSA Policy on Payment for Missed Consultative Examination Appointments--ACTION

The purpose of this letter is to clarify SSA's policy on payments for missed consultative examinations (CEs).

Issue

We understand a few disability determination services (DDSs) are now requesting regional office (RO) assistance in allowing payments for missed CE appointments. Typically, these involve localities with sparse population and provider density where DDSs are experiencing difficulty in recruiting and retaining CE panelists in certain specialties.

Background

In December 1987, the Office of Inspector General issued a report, "Payments Under the Disability Determination Program for Medical Appointments Made by Claimants of Disability Insurance and Supplemental Security Income Benefits." This report recommended that SSA pursue a policy of not paying for broken CE appointments.

SSA agreed to adopt a no-pay policy for missed CE appointments. However, OD recognized that exceptions to the no-pay policy may occur (e.g., another agency within the State allows a payment for missed CEs, inability to recruit or keep a certain type of provider, etc.). Additionally, the no-pay policy does not affect SSA's policy of allowing a nominal fee to compensate the consultative examiner who reviewed background medical records prior to the missed CE.

Conclusion

While the no-pay policy for missed CE appointments has not changed, OD recognizes the need to refine and formalize the process of allowing exceptions to this policy. Therefore, to request an exemption to the no-pay policy for missed CE appointments, please work with your RO to document the unique situation for audit purposes.

Once you and the RO agree that an exemption to the no-pay policy may be warranted, the RO will forward the request and documentation to OD for final approval. OD will review each request on a case-by-case basis to ensure that SSA is making sound fiscal and good business decisions and is consistent in determining when exceptions apply to the no-pay policy.

If your staff have any questions, they should contact the Professional Relations Coordinator in your RO.

/s/
Kenneth D. Nibali
Associate Commissioner
for Disability

cc:
All Regional Commissioners

Costs to Be Reimbursed to SSA

Federal Fiscal Year	Consultative Examination Fees Paid for Missed Appointments	Automated Allocation Process Erroneously Implemented	Total Adjustments
1996	N/A	$5,689	$5,689
1997	N/A	22,303	22,303
1998	N/A	25,178	25,178
1999	N/A	30,828	30,828
2000	$93,875	112,783	206,658
2001	90,230	40,278	130,508
2002	88,725	N/A	88,725
Total	$272,830	$237,059	$509,889

Agency Comments

SOCIAL SECURITY

MEMORANDUM

Date: December 4, 2003 Refer To: S2G8B4:RC

To: Steven L. Schaeffer
Assistant Inspector General
for Audit

From: James C. Everett
Regional Commissioner, Denver

Subject: Administrative Costs Claimed by the Colorado Disability Determination Services (A-15-03-13044) (your memo dtd 10/16/2003)--REPLY

We thank you for the opportunity to review the draft audit findings for the audit performed at the Colorado DDS. Specifically, you found three audit exceptions.

The first was that consultative examination (CE) fees paid were in excess of the fee schedule; specifically in excess of the Medicare fee schedule. The State of Colorado requires that all volume providers earning in excess of $25,000 must have contracts awarded under the State bidding process. These contracts are supervised by the State purchasing office. The consultative examinations purchased by the DDS fall under this process when any doctor providing the services earns in excess of $25,000 for services. This process may be lower or higher than any fee schedule and the bids should be included in the schedule used for comparison. .

The second was that CE providers were paid for missed appointments which is not permitted according to the DDS Administrators' Letter No 536. Payment for missed appointments is not permitted, per se, but an administrative fee is permitted. The DDS does pay an administrative fee to the provider. The error here is that the fee has been miscoded in the records and these were coded as missed rather than as an administrative fee. We believe that an administrative error for coding would be appropriate but not an overpayment error.

The last exception is based on the failure of the State to submit timely cost allocation plans (CAPs). As an example, the State did not release the State fiscal year 2003 CAP for consideration until October 3, 2003. We have been advised by the HHS Division of Cost Allocation in San Francisco, California, that they have repeatedly advised the State, without success, that they are not meeting the deadlines in submission of their CAPs. The division has also advised that the State can only begin charging the new fees when a new plan is published but may have to refund SSA and other Operating Divisions if the plan is not approved. In this case, they can now charge the 2003 fee. As far as the audit exception is concerned, we believe it should stand and let the State defend its position.

If you have any questions or concerns, please call me. Staff contact is Bob Carmichael, telephone (303) 844-4878.

CDHS Comments

STATE OF COLORADO

Colorado Department of Human Services
people who help people

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Bill Owens
Governor

Marva Livingston Hammons
Executive Director

Mr. Steven L. Schaefer
Assistant Inspector General For Audit
Social Security Administration
Financial Audit Division
Baltimore, MD 21235-0001

Dear Mr. Schaeffer:

We have enclosed a copy of our audit responses for Colorado Disability Determination Services. Our objectives are to comply with the federal rules and regulations as well as the state's requirements and provide the best service to our clients.

Even though we do not concur on some of the recommendations, which are clearly stated in our response, the department has taken the necessary steps to implement the recommendation on the internal control. The department is willing to work closely with SSA to resolve the contested findings and reach desirable results.

If you wish to discuss the responses, please contact Bill Wagner at 303-752-5660 or Mariam Habtemariam at 303-866-3625.

Sincerely

Marva Livingston Hammons
Executive Director

Enclosure

Cc:
William Starks, Director, Disability Determination Services

Our Mission is to Design and Deliver Quality Human Services that Improve the Safety and Independence of the People of Colorado

COLORADO DISABILITY DETERMINATION SERVICES (CO-DDS)
RESPONSE TO RECOMMENDATIONS

Consultative Examinations

Recommendation #1: *" Stop paying for CEs in excess of CO-DDS' established fee schedule and reimburse SSA $187,740 for the excess payments made during our review. Further, the CO-DDS should calculate excess payments for FFY 2003 and reimburse SSA for the amount"*

As CO-DDS explained when the auditors were on site, the State of Colorado requires the DDS to use a formal contract procedure called "Best Value Bid" (BVB) for any vendor whose services are likely to exceed $25,000 in the Fiscal Year. The BVB procedure was implemented as required by the State Auditor in 1999. A copy of that audit was provided to the SSA Regional Office. The Regional Office followed up on the audit findings to confirm that the DDS had made the changes identified in that audit. The DDS notified the Regional Office when the DDS reached compliance with the audit findings, including the use of the BVB process for volume medical providers. At no time did the Regional Office indicate that such a process was out of compliance with SSA rules. In fact the Regional Commissioner notified the SSA Deputy Commissioner for Finance, Assessment, and Management in a June 2, 1999 memorandum that the CO-DDS had resolved the audit recommendations, including BVB from medical providers to conduct consultative examinations.

CO-DDS bid contracts are in force, and the fees included in the bids are the "fee schedule" for services provided by those vendors. The CO-DDS fee schedule documents the specific fees to those vendors (volume providers) selected through the BVB process. Those contracts are reviewed and renewed every fiscal year. Non-volume medical vendors were assigned a fee based on the general schedule in place prior to the BVB process. Those vendors were essential to provide examinations in those areas were BVB bids were not received.

The auditors cite POMS DI 39545.210 1 c "The State will maintain documentation to support the rates of payment it uses." They state that DDS did not have an updated official fee schedule, so that payments to those vendors were outside of the last official fee schedule, and were therefore disallowable. That is not the case; the contracts with these vendors are very well documented and are part of the CO-DDS fee schedule.

The POMS also allows for special fees if a DDS has difficulty obtaining services in rural or outlying areas. Those fees are reflected in the DDS fee schedule as well.

The POMS citation also states that the State will determine its fee schedule. The State Controller requires the DDS to have a BVB for purchases of services over $25,000. The establishment of those contracts is the determination of the fee schedule for the purchased services. Comparing the BVB schedules to the general fee schedule seems inappropriate. The DDS maintains and updates the contracts as part of its fee schedule determination.

The draft report alleges the DDS has not reviewed its entire fee schedule since 1989, and that the proscribed processes have not been followed to advise the SSA Regional Office of the existing fees. The DDS provides SSA a fee schedule review through annual CE oversight reports to the Regional

Office. Those reports provide a status of the DDS fee schedule each year. The DDS has initiated a more formal procedure to review the fee schedule at the end of the Federal Fiscal Year, and to notify SSA's Regional Office of any changes.

Recommendation #2: *"Update its fee schedule in accordance with POMS on an ongoing basis. Further, the methodology for established and updating rates of payment should be documented and maintained"*

The auditors cite the results of a workgroup that was convened in 1999 that had as one result a statement that the DDS fees:
"shall be based on the Medicare fee schedule for the same or similar types of service." Despite an extensive review of the POMS, RDIM and agency letters, the DDS is unable to find that the recommendations of the workgroup were ever promulgated by SSA. CO-DDS is guided by the POMS, RDIM and agency letters in its operations, not workgroup recommendations.

POMS 39545.210 1 a states:
"The State will determine the rates of payment for medical or other services that are necessary to make a disability determination."
POMS 3945.210 1 c states:
"The rates may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar types of service. The State will maintain documentation to support the rates of payment it uses."

On October 2, 2003 the DDS sent the Regional Office its updated fee schedule compared to the fee schedule published by Department of Labor (DOL) for the last four Fiscal Years. The Regional Office provided the DDS with the DOL fee schedule and aided us in establishment of a relationship with DOL that will permit us to do comparative analysis with their fees in a relatively easy manner.

The citation above says in part that the DDS cannot exceed the highest comparable fee paid by either State or Federal agencies that obtain the same or similar evidence. During the audit, the auditors selected the Medicare rates, which are some of the lowest rates and which are usually obtained for treatment purposes rather than evaluation of disability. The DOL obtains information for evaluation of disability and it can be argued, the DDS believes persuasively, that their rates are for services that compare more favorably to like services sought by the DDS. At a minimum, the DOL rates are at least as pertinent as the Medicare rates.

Examples in the auditors' findings compare DDS fees for specialty examinations and for Speech and Language evaluations, and find our fees to be in excess of Medicare by a total of $1,126,171. In comparing those same fees to the DOL fee schedule for the same periods, the DDS finds that our fees were substantially <u>below</u> DOL fees for those same periods.

It is the DDS position that our fees are in compliance with POMS 3945.210 1 c. Using the DOL fee schedule provided to us by SSA's Regional Office, DDS fees were substantially less in comparison. DDS fees for medical evaluations range from 8.8% to 54.8% below the DOL fee. CO-DDS contends that we were not paying higher fees than another Federal agency that procures evidence for the same purposes as DDS.

DI 39545.210 Fee Schedules

POLICY

The following policy is for determining fee schedules:

1. General

a. The State will determine the rates of payment for medical or other services that are necessary to make a disability determination.

b. The DDS will consider its fee schedule as a maximum payment schedule. Authorized payments will represent the lower of either:

o the provider's usual and customary charge or,

o the maximum allowable charge under the fee schedule.

c. The rates may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar types of service. The State will maintain documentation to support the rates of payment it uses. (See DI 39545.410 for guides on monitoring, maintenance, and reporting fee schedules).

d. The rates must be consistent with the cost principles set forth in 48 CFR 31.6 of the Federal Acquisition Regulations System and Office of Management and Budget Circular A 87. That is, the rates must be reasonable and necessary for the efficient administration of the program.

Recommendation #3: *Stop paying for no show appointments or apply for exclusion and reimburse SSA for the $272,830 paid for no shows for FFYs 2000 through 2002 and any subsequent payments for FFY 2003.*

A. No exemption is needed because the SSA rules[1] allow for reasonable administrative fees to be paid to a Consultative Examination (CE) vendor. The DDS CPT code (#999) for this service was listed on its fee schedule at the time of the audit as "Review of medical records". The purpose of the fee is to reimburse the CE vendor for the administrative costs associated with the examination. Most important are those costs related to reviewing the CE authorization document and any associated medical records provided by the DDS. The administrative costs would also include but are not limited to: scheduling the appointment, telephone calls with the DDS and/or claimant, preparing a case folder (chart), filing documents, and mailing information. The majority of these activities occur prior to the actual examination.

[1] DDSAL-536: SSA Policy on Payment for Missed Consultative Examination Appointments.

B. The DDS annual oversight reports provided to the Regional Office routinely mention that the DDS pays $25 for "review of medical records". The DDS routinely provides notification of this fee, which has not been previously challenged.

The SSA auditors appear to interpret the citation to say that the CO-DDS cannot make payment of any kind when a missed appointment occurs. The DDS believes this to be in error as the citation specifically allows administrative fees:
"Additionally, the no-pay policy does not affect SSA's policy of allowing a nominal fee to compensate the consultative examiner who reviewed background medical records prior to the missed CE."[2]

It should also be noted that the DDS does not pay this fee unless the CE vendor requests it. The auditors noted this by acknowledging that the DDS records showed invoices from the vendor. When the DDS pointed out that the payment was for reasonable costs of administrative services including review of medical records, the auditors commented that the invoices did not have any such medical records attached. The DDS in turn pointed out that the vendor would not return the photocopied medical records as those would either become part of the claimant's chart, or be destroyed. The DDS was the provider of the copies in the first place and would have no use for them as the DDS maintained the original documents.

[2] DDSAL-536: SSA Policy on Payment for Missed Consultative Examination Appointments

Cost Allocation Plans

Recommendation #4: "*Ensure that the method CDHS uses to allocate the indirect costs is consistent with the approved indirect cost allocation plan and more precise descriptions of the allocation methodology are provided.*"

The department will do an annual thorough review of its cost allocation systems to ensure that the methods used for allocating costs are consistent with the methods described in the cost allocation plan. The department will also provide more precise descriptions of the various allocation methods beginning with the SFY04 PACAP.

Recommendation #5: "*Ensure the CDHS submits its cost allocation plans to HHS for SFY03 immediately. When the SFY02 and 2003 plans are approved, SSA and the CDHS need to ensure that the $2,173,725 in indirect costs already claimed have been paid in accordance with the approved plans. SSA should ensure that any amounts it determines to be unallowable or not properly allocated in accordance with the approved plans are refunded to SSA or offset against subsequent claims.*"

"*The SFY03 PACAP was submitted to HHS and all federal operating divisions on October 3, 2003. Once the SFY02 and SFY03 plans are approved, CDHS will work in concert with CDDS and SSA to ensure that all indirect costs claimed for these periods are in accordance with the approved cost plans and either refund to SSA or offset against subsequent claims any costs determined to be unallowable or not properly allocated.*"

Notwithstanding the delayed submissions of the SFY01, SFY02, and SFY03 cost plans, it is important to understand that the indirect cost impact to the Colorado Disability Determination Services (CDDS) is immaterial as the variance between the original and recast allocations to CDDS is a relatively small amount. In fact, the major changes to the SFY02 and SFY03 plans relate to the county indirect cost structure for allocating an average of $250m annually in county indirect costs to state and federal programs *other than* CDDS whose services are not conducted in county departments of social services. In contrast, the organizational changes shifting executive management oversight of the CDDS program in SFY02 and SFY03 relate to the state indirect cost structure and the major impact is derived from substituting the prior executive manager's salary with the new the executive manager salary. Hence, the indirect cost allocations to CDDS in SFY02 and SFY03 remain at comparable levels when compared to the allocations based on the SFY01 approved plan.

Recommendation #6: "*Ensure the CDHS develops a process to submit future cost allocation plans timely to HHS for approval. SSA should proactively ensure that the cost allocation plans are submitted in a timely manner and properly implemented.*"

Timely submission of Cost Allocation Plans in strict accordance with CFR, Title 45, section 95.509 for SFY01, SFY02, and SFY03 has been problematic for DCHS due to multiple factors which occurred within a short period of time, namely, a final directive from the Division of Cost Allocation to recast SFY98, SFY99, SFY00, and SFY01 using statewide Random Moment Sampling (RMS) statistics in county indirect cost allocations, followed by major organization changes implemented by a new executive director,

followed by turnover of key staff responsible for state and county indirect costs and the PACAP.

The required retroactive recasts necessarily placed the department in arrears regarding timely cost plan submissions as efforts were focused on accurate completion of 16 quarters of recasts. This effort was further complicated by the fact that SFY98 and SFY99 data resided in old legacy systems while SFY00 and SFY01 data resided in a new County Fiscal Management System that was implemented in SFY00.

Through the process of recasting SFY98-SFY01 county indirect costs and the process of responding to state fiscal and program staff regarding the detail to support state indirect cost allocations, the department's cost accounting unit has developed a strong knowledge base regarding OMB Circular A-87 PACAP requirements as well as the existing state and county indirect cost structures, pools, bases and systems. The unit is working to incorporate all recommendations that resulted from the October 2002 DCA cost allocation review in the SFY04 PACAP with a realistic target submission date of December 31, 2003, after which the department will begin updating the PACAP to reflect any anticipated changes for SFY05. A realistic target submission date for the SFY05 PACAP is March 31, 2004.

Recommendation #7: " *Refund $237,059 to SSA caused by inconsistencies between the automated allocation process and the approved indirect cost allocation plan."*

Of the $237,059.00 recommended refund to SSA, $83,998 is from an isolated allocation that indeed adheres to the approved cost plans for the Federal Fiscal year periods 1996 (4th Qtr) through 1999, which are also periods *outside* the scope of the audit. Additionally, the major portion of the remaining netted balance of $153,061.00 for the Federal Fiscal year periods 2000 and 2001 is attributable to the same isolated allocation which again adheres to the approved cost plans for these periods. The department does not concur with the OIG audit staff's determination that the isolated allocation in question is a rational correlation, nor does it agree with OIG's treatment of the rational correlation as an erroneous allocation. In fact, the isolated allocation adheres to the same methodology repeatedly submitted, reviewed and approved by DCA and all federal operating divisions during the negotiation periods for the 1996-2001 cost plans. Thus, the department maintains its original position that using full time equivalent employee counts to allocate building services that benefit the central building indirect staff, who provide services to CDDS, is fair and reasonable. Finally, of the $153,061.00 netted balances for 2000 & 2001, there is neither evidence of misallocations nor the respective amounts unrelated to the isolated allocation discussed above.

All Other Non-Personnel Costs

Recommendation #8: *"Record obligations in accordance with POMS and adjust the accounting records for all other non-personnel costs."*

To ensure that obligations and transactions are recorded in the appropriate funding year, accounting has mandatory requirement that all transaction coding for new FFY grant is provided to program staff as well as accounting staff in advance. Therefore any encumbrances that will continue through the new federal year are coded correctly and transactions are coded in the appropriate year. In addition the Program Accountant is diligently reviewing all transactions before approving any transactions and perform appropriation analyses before period close.

Cash Draws

Recommendation #9: *Instruct CDHS to emphasize better internal controls to ensure that the cash draws are posted to the correct FFY.*

As accounting explained when the auditors were on site, the cash management accountant being new and staffs turn over had significant impact on the cash draw down process. Since then the cash management accountant and the program accountant had extensive training on the process of draw down as well as how to reconcile the ASAP amount to Colorado Financial Reporting System amount. The program accountant receives weekly report from the ASAP and reconciles the amount to the grant module in COFRS as well as the receivable account and work closely with the cash management accountant.

Internal Control Over Checks

Recommendation #10: *Consider using direct deposits to pay its vendors. In the meantime, internal controls over paper checks should be strengthened by ensuring there is a segregation of duties and check log"*

DDS and the Division of Accounting are in the process of researching the cost of contracting with the Colorado Department of Personnel and Administration's Mail Services to match remittance advices with the corresponding warrants (checks) to service providers, fold, stuff the envelopes, and send the warrants out. The warrants would go directly from the State Accounting Office to Mail Services and DDS would send the remittance advices to Mail Services for matching. The persons at DDS processing payments would no longer receive any warrants.

The auditors correctly analyzed the processes used by DDS to handle warrants that have been returned as undeliverable. The warrant is given to a data base specialist in the

Information Services section where the vendor address is researched and the warrant is re-mailed if appropriate, or is returned to State Accounting if the address cannot be found. The auditors point out that there is no log prepared showing that the checks were returned as undeliverable, and that a lost or stolen check could go undetected. In response to this finding, we have initiated a procedure where a log will be maintained by the data base specialist, who will enter into a log with the headings: Date Received, Warrant Number, Amount, Payee, Action Taken, and Date Action Taken. DDS believes that this will adequately resolve the issue pointed out by the auditor.

OIG Contacts and Staff Acknowledgments

OIG Contacts

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The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

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The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

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The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.