



## SOCIAL SECURITY

### MEMORANDUM

Date: August 18, 2003

Refer To:

To: James F. Martin  
Regional Commissioner  
Chicago

From: Assistant Inspector General  
for Audit

Subject: Administrative Costs Claimed by the Illinois Bureau of Disability Determination Services  
(A-05-02-22019)

The attached final report presents the results of our audit. Our objectives were to evaluate the Illinois Bureau of Disability Determination Services' internal controls over the accounting and reporting of administrative costs, determine whether costs claimed were allowable and allocable, and funds were properly drawn.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me or have your staff contact Bill Fernandez, Director, Western Audit Division, at (510) 970-1739.

A handwritten signature in cursive script that reads "Steven L. Schaeffer".

Steven L. Schaeffer

Attachment

cc:

Carol L. Adams, Ph.D., Secretary, Department of Human Services  
Ann P. Robert, Deputy Director, Illinois Bureau of Disability Determination Services  
Lenore R. Carlson, Associate Commissioner, Office of Disability Determinations  
Jeff Hild, Deputy Associate Commissioner, Office of Financial Policy and Operations  
Candace Skurnik, Director, Management Analysis and Audit Program Support Staff

Carol Adams, Ph.D., Secretary  
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Illinois Bureau of Disability Determination Services  
100 North First Street  
Springfield, IL 62701

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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**ADMINISTRATIVE COSTS  
CLAIMED BY THE  
ILLINOIS BUREAU OF DISABILITY  
DETERMINATION SERVICES**

**August 2003**

**A-05-02-22019**

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# **AUDIT REPORT**

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## **Mission**

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

## **Authority**

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

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

**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*

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## **OBJECTIVES**

The objectives of our audit were to (1) evaluate the Illinois Bureau of Disability Determination Services (IL-BDDS) internal controls over the accounting and reporting of the administrative costs, (2) determine whether costs claimed were allowable and allocable, and (3) determine whether funds were properly drawn.

## **BACKGROUND**

Disability determinations for SSA's Title II and Title XVI programs are performed by Disability Determination Services (DDS) in each State or other responsible jurisdiction, according to Federal regulations. Each DDS determines claimants' disabilities and ensures that adequate evidence is available to support its determinations. To make proper disability determinations, each DDS is authorized to purchase consultative examinations (CE) to supplement evidence obtained from the claimants' physicians or other treating sources. SSA reimburses the DDS for 100 percent of allowable expenditures. IL-BDDS draws funds to pay its costs under an agreement with the Federal Government.

## **RESULTS OF REVIEW**

Our review of administrative costs claimed by IL-BDDS disclosed that \$4,034,660 was unallowable because provisional rates used to calculate indirect costs were higher than the negotiated actual rates. In addition, IL-BDDS did not provide documentation to support its position that CE rates complied with regulatory limits. We estimated potential savings from limiting rates to those charged for comparable medical services under Medicare at \$1,247,932 for the 3-year audit period. We also identified \$668,312 recorded in the incorrect fiscal years (FY); IL-BDDS agreed \$228,250 of this amount was claimed for reimbursement in the wrong FY.

## **CONCLUSIONS AND RECOMMENDATIONS**

We recommend SSA recover \$4,034,660 for costs claimed based on a provisional indirect cost rate. In addition, SSA should ensure IL-BDDS has documentation to confirm its CE payments are limited to the highest rates allowable for comparable medical services. SSA should also ensure IL-BDDS reclassify \$228,250 reported as FY 1998 costs to FY 1999 and establish procedures to report costs in the proper FYs.

## **AGENCY COMMENTS AND OIG RESPONSE**

SSA partially agreed with our four recommendations. See Appendix C for the full text of SSA's comments. We generally concurred with SSA's comments and have revised the report accordingly. A discussion of comments from the Illinois Department of Human Services (IL-DHS) and our response is shown in "Conclusions and Recommendations," pages 8 and 9 of this report.

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# Acronyms

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Act	Social Security Act
AMA	American Medical Association
ASAP	Automated Standard Application for Payments
CAP	Cost Allocation Plan
CE	Consultative Examination
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
CPT	Current Procedural Terminology
DDS	Disability Determination Services
DI	Disability Insurance
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
HHS	Department of Health and Human Services
IL-BDDS	Illinois Bureau of Disability Determination Services
IL-DHS	Illinois Department of Human Services
MOU	Memorandum of Understanding
OMB	Office of Management and Budget
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
Treasury	Department of the Treasury



# Introduction

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## OBJECTIVES

The objectives of our audit were to (1) evaluate the Illinois Bureau of Disability Determination Services (IL-BDDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed were allowable and allocable, and (3) determine whether funds were properly drawn.

## BACKGROUND

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

The Social Security Administration (SSA) is primarily responsible for implementing policies governing the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by Disability Determination Services (DDS) in each State or other responsible jurisdiction according to Federal laws and regulations.<sup>1</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase such medical consultative examinations (CE) as x-rays and laboratory tests to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA authorizes an annual budget to reimburse the DDS for 100 percent of allowable expenditures. The DDS draws down the Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments (ASAP) system. Funds are drawn down from the Treasury to pay for program expenditures according to Federal regulations<sup>2</sup> and intergovernmental agreements entered into by Treasury and States under the authority of the Cash Management Improvement Act of 1990 (CMIA).<sup>3</sup> The DDS submits a State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) quarterly to SSA. Each form reports cumulative program disbursements and unliquidated obligations, as of the end of that fiscal quarter, for a specific fiscal year's (FY) authorized appropriation.

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<sup>1</sup> 42 U.S.C. § 421; 20 CFR Part 404, Subpart Q, and Part 416, Subpart J.

<sup>2</sup> 31 CFR § 205.

<sup>3</sup> Pub. L. No. 101-453.

IL-BDDS is a component of the Illinois Department of Human Services (IL-DHS). Indirect costs are allocated to IL-BDDS through the application of an indirect cost rate under a plan which is approved by the Department of Health and Human Services (HHS).

## **SCOPE AND METHODOLOGY**

We reviewed the administrative costs IL-BDDS reported on its Form SSA-4513 for FYs 1999 through 2001. We obtained documentation to evaluate recorded financial transactions in terms of their allowability under Federal law and applicable regulations including Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and appropriateness, as defined by SSA's Program Operations Manual System (POMS).

We also:

- Reviewed applicable Federal regulations including POMS guidance on fiscal and administrative management and other instructions pertaining to administrative costs incurred by IL-BDDS and the draw down of SSA funds covered by the States' agreement with Treasury under the CMIA.
- Reviewed a finding reported by KPMG, Certified Public Accountants, as part of the Illinois single audit. We did not rely on the single audit work because of the limited scope of the review performed at IL-BDDS.
- Interviewed staff at IL-BDDS, IL-DHS, and the SSA Region V Center for Disability.
- Reviewed State policies and procedures related to personnel, medical, and all other nonpersonnel costs.
- Reviewed the Memoranda of Understanding (MOU) between SSA and the IL-BDDS for a State function.
- Evaluated and tested internal controls over accounting, financial reporting and cash management.
- Reviewed the reconciliation of State accounting records to the administrative costs reported by IL-BDDS on the Form SSA-4513 for FYs 1999 through 2001.
- Examined the administrative expenditures (personnel, medical service, and all other nonpersonnel costs) claimed by IL-BDDS for FYs 1999 through 2001. We used statistical sampling to select documents to test for support of medical and all other nonpersonnel costs (see Appendix A).
- Examined the indirect costs claimed by IL-BDDS for FYs 1999 through 2001 and the corresponding IL-BDDS Cost Allocation Plans (CAP).

- Compared the amount of SSA funds drawn down to the claimed expenditures reported on the Form SSA-4513.
- Selected six types of CEs to compare IL-BDDS fees for service to Medicare fees for the same or similar services.
- Discussed indirect cost issues with IL-DHS personnel, the contractor (Maximus, Inc.) that prepares the State's cost allocation plan, and the cognizant official from HHS.

We performed work at the IL-BDDS in Springfield, Illinois, and the SSA Regional Office in Chicago, Illinois. We conducted field work from July 2001 through December 2002. The audit was conducted in accordance with applicable generally accepted government auditing standards.

# Results of Review

Our review of administrative costs claimed by IL-BDDS disclosed that obligations reported to SSA were overstated by \$4,034,660 because IL-BDDS used a provisional indirect cost rate for the 3-year audit period. Second, we identified potential cost savings of \$1,247,932 for CE fees that were paid in excess of the Medicare rates for comparative medical services. Third, we identified \$668,312 in costs that IL-BDDS recorded in incorrect FYs.

## INDIRECT COSTS

IL-BDDS claimed \$11,201,872 in indirect costs for the period October 1998 through September 2001. The claimed indirect costs were calculated by multiplying a "provisional rate" of 13.9 percent by the allocation base of payroll costs. IL-BDDS used the same "provisional rate" to calculate indirect costs for all 3 years of our audit period. The provisional rate was established on an interim basis on behalf of the Federal Government until HHS negotiated actual rates.

The rates were finalized during 2002 at 9.6 percent for the first 3 quarters of FY 1999 and 7.5 percent through FY 2000. The primary reason for the lower actual rates was the exclusion of claimed indirect costs for activities that provided no benefits to IL-BDDS. We discussed our conclusions with the cognizant HHS official for negotiating the rate. The negotiator concurred and stated the rate was being substantially reduced. He added that the 7.5 percent rate is effective for FY 2001 and subsequent periods on a provisional basis until approval of a new rate. The use of the provisional rate resulted in \$4,034,660 of indirect costs claimed in excess of allowable costs calculated using the actual rates during the 3-year audit period. We have identified the allowable and unallowable costs for each FY in the following table. Allowable and unallowable indirect costs for FY 2001 are subject to adjustment pending determination of the actual rate for that FY.

FY	PERCENTAGE	AMOUNT CLAIMED	ALLOWABLE	UNALLOWABLE
1999	(see note below)	\$3,790,148	\$2,662,014	\$1,128,134
2000	7.5	\$3,599,266	\$2,183,235	\$1,416,031
2001	7.5	\$3,812,458	\$2,321,963	\$1,490,495
<b>TOTALS</b>		\$11,201,872	\$7,167,212	\$4,034,660

Note: The calculation of allowable costs was based on actual negotiation rates, 9.6 percent for the first 3 quarters and 7.5 percent for the 4<sup>th</sup> quarter of FY 1999.

## MEDICAL COSTS

IL-BDDS did not provide documentation to confirm its CE rates were consistent with applicable policies and procedures. We assessed the reasonableness of the rates by relating its fees with the American Medical Association's (AMA) Current Procedural Terminology (CPT) codes for comparable medical services. Using comparable Medicare fees, we estimated potential cost savings of \$1,247,932 during the 3-year audit period (see Appendix B).

Federal regulations require that each State determine the payment rates for medical or other services necessary to make determinations of disability. 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. In addition, the State must maintain documentation to support the payment rates used.<sup>4</sup>

SSA's procedures state that the DDS should fully document its methodology for establishing and updating payment rates for medical services. When possible, the DDS should also use the AMA CPT coding system to identify each procedure in its fee schedule.<sup>5</sup> A standard coding system is necessary to (1) provide a crosswalk between the DDS and Medicare codes for the same or similar types of service, and (2) enable SSA and IL-BDDS to readily identify, monitor, and compare CE costs against fees paid by other agencies.

In January 1999, SSA's Office of Disability convened a workgroup to provide guidance for establishing fee schedules for medical procedures.<sup>6</sup> SSA stated that each State should be cost-efficient and make every attempt to negotiate fees below the highest allowable rates. However, SSA concluded that the maximum payment rates shall be based on the Medicare fee schedule if the DDS does not use other State agency fee schedules for the same or similar types of service. To identify the applicable Medicare fees for its CEs, SSA stated that the DDS could use one of four CPT codes established for each medical procedure based on the complexity of the examination. Specifically, SSA stated that the DDS could use CPT code 99243 (that is, a detailed 40-minute examination) for most of its CEs.

IL-BDDS, however, did not use the Medicare fee schedule to develop its CE billing schedule. Also, IL-BDDS did not provide us with the basis for its CE rates. We, therefore, selected six CE codes to test the reasonableness of the fees. Five of the six codes had already been "cross-walked" to AMA's CPT codes in a prior audit, *Fees Paid by State Disability Determination Services to Purchase Consultative Examinations*, (A-07-99-21004) issued in September 2001. For the remaining CE code, we developed a comparable Medicare fee based on similar services according to a medically related

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<sup>4</sup> 20 CFR §§ 404.1624 and 416.1024.

<sup>5</sup> POMS, section DI 39545.410.

<sup>6</sup> SSA, Office of Disability, *Medical Procedures Fee Schedule Workgroup Report*, January 1999.

CPT code. The six codes represented 56 percent of total CE costs claimed during the audit period. We used these CPT codes to compare Medicare fees to the fees paid by IL-BDDS for CE services in the same geographic areas. We identified CE rates in excess of comparable Medicare fees for four of the codes. However, we recognize other CPT codes may apply to these comparisons and the length of time to complete CEs is also a factor in determining the correct CE fee. Accordingly, SSA should improve its oversight of CE fees and limit future payments to the highest rate paid by Federal or other State agencies.

## **INCORRECT FISCAL YEAR PAYMENTS**

We identified \$668,312 that was recorded in the accounting system in the wrong FYs, although the costs were otherwise acceptable for reimbursement by SSA. These costs included \$440,062 for medical services that were recorded in one FY, but obligated and incurred in a prior FY. We were unable to determine the FY in which IL-BDDS claimed these costs. OMB Circular A-87 states that costs are allocable to the year that benefited from the services, which is the year the services were rendered. These costs were recorded in the wrong FY because the IL-BDDS did not maintain a "cut-off" to record costs in the proper year.

The following chart presents the medical payments that should have been recorded as costs incurred in a prior year.

<b>FY Incurred</b>	<b>FY Recorded</b>	<b>Number of Invoices</b>	<b>Amount</b>
1998	1999	2,205	\$87,051
1999	2000	5,393	277,805
2000	2001	2,015	75,206
<b>TOTALS</b>		9,613	\$440,062

In addition, we identified \$150,000 in postage expenses and \$78,250 in building leasehold improvement costs disbursed in FY 1999, but reported as costs incurred in FY 1998. Section 1502(a) of Title 31, United States Code, provides, in part, that:

“[t]he balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability.... However, the appropriation or fund is not available for expenditure for a period beyond the period otherwise authorized by law.”

Since the postage was purchased in FY 1999 and the leasehold improvements were performed during FY 1999, there was no benefit provided in FY 1998.

Improperly shifting costs between FYs potentially impacts total expenditures authorized for reimbursement. The procedure also prevents SSA from accurately monitoring the status of States' expenditures and unexpended appropriations. The effect is to reduce the Agency's ability to manage the allocation and use of budgeted funds among States.

# Conclusions and Recommendations

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Our review of administrative costs claimed by IL-BDDS disclosed that obligations reported to SSA were overstated by \$4,034,660 as a result of using provisional indirect cost rates. Also, IL-BDDS was unable to provide supporting documentation that it limits CE payments to the highest allowable rates. In addition, we identified \$668,312 recorded in the incorrect FYs, of which IL-BDDS agreed \$228,250 was claimed for reimbursement in the wrong FY.

We recommend that SSA:

1. Instruct IL-DHS to refund \$4,034,660 for indirect costs inappropriately charged to SSA for FYs 1999 through 2001.
2. Improve its oversight of CE fees and limit future payments to the highest rate allowable by Federal or other State agencies in Illinois.
3. Instruct IL-DHS to reclassify \$228,250 erroneously reported as FY 1998 rather than FY 1999 costs.
4. Instruct IL-DHS to establish procedures for reporting and claiming costs in the correct FY.

## AGENCY COMMENTS

SSA noted that the indirect cost adjustments resulted from an established process rather than the audit. It also revised the adjustment due to a change made to the allocation base during the finalization process. Regarding the second recommendation, SSA stated IL-BDDS failed to provide the OIG with the State fee schedule used in setting CE rates that was in compliance with Federal rate setting requirements. SSA agreed that IL-BDDS claimed \$228,250 in the wrong FY. However, SSA added that the remaining \$440,000 we identified as recorded in the wrong FY resulted from our use of an erroneous accounting report prepared by IL-BDDS. SSA stated that IL-BDDS has since corrected the error and the costs were claimed in the correct FY. SSA agreed with the fourth recommendation.

## OIG RESPONSE

We identified costs in the CAP allocated to IL-BDDS as indirect that provided no benefit to the Agency. We discussed this issue with the cognizant negotiator from HHS who concurred with our conclusions. The negotiator noted that the final indirect cost rates would be significantly below the provisional rates. The fact the rates were negotiated before we issued our report does not detract from the finding. We verified that SSA's

computation of allowable indirect costs was correct and revised the report accordingly. We also agreed that IL-BDDS' use of provisional indirect rates was the correct procedure when the State submitted its cost reports. We revised our report to disclose indirect costs were properly claimed based on the rates in effect.

Regarding SSA's comments on recommendation two, during the audit we were not provided with a State medical fee schedule. We, therefore, were unable to determine whether IL-BDDS used a State rate schedule in establishing CE rates that satisfied Federal requirements. However, we agree that the amount we identified in our report as "overstated obligations" should exclude our estimated potential cost savings related to the use of Medicare rates to establish CE fees.

We were not provided sufficient information to determine whether the \$440,062 in medical costs we reported as recorded in the wrong FY were, in fact, claimed in the correct year. IL-BDDS recently sent us a revised accounting report, but the report did not provide adequate data for us to determine whether the costs were claimed for reimbursement in the correct FYs.



## *Other Matters*

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We followed up on a finding from the single audit of the State of Illinois for the FY ended June 30, 2000, concerning the lack of supporting documentation for payroll costs. The finding related to the failure of IL-BDDS to document the percentage of effort that personnel spent on the Federal program and the State SSI Advocacy program. Our review disclosed that the SSA Regional Commissioner, Region V, signed a MOU which did not require IL-BDDS to document the percentage of effort spent on the State SSI Advocacy program. Furthermore, the MOU waived reimbursement of all costs associated with the administration of the SSI Advocacy program. Therefore, we consider the issue to be resolved.

# *Appendices*

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# Sampling Methodology

Our sampling methodology encompassed the following four general areas of costs as reported on the Social Security Administration's Form 4513: (1) personnel, (2) medical, (3) indirect, and (4) all other non-personnel costs. We obtained computerized data from Illinois Bureau of Disability Determination Services (IL-BDDS) for Federal Fiscal Years (FY) 1999 through 2001 for use in statistical sampling.

### Personnel Costs

We judgmentally sampled 20 employees and contractors from 2 randomly selected pay periods in FY 2001. We tested the payroll records to ensure individuals were paid correctly and payroll was adequately documented.

### Medical Costs

We randomly sampled 300 items (100 items from each FY) from the population of medical evidence of record and consultative examinations (CE). We also selected the 6 CE codes with the greatest number and dollar amount of invoices paid. Collectively, they represented 56 percent of all CE costs. We limited our review of invoices for these 6 CE codes to physicians with 100 or more paid invoices during the FY. We compared the invoice amounts to Medicare rates to determine whether IL-BDDS paid more than the Medicare rate by locality for the CE codes.

### Indirect Costs

During our review, we obtained final indirect cost rates for FYs 1999 and 2000. Since IL-BDDS used a higher rate to claim indirect costs, we calculated an overpayment in all 3 years of our review.

### All Other Nonpersonnel Costs

We selected a stratified random sample of 300 items (100 expenditures from each FY) of all other nonpersonnel costs. We stratified all other nonpersonnel costs into 12 categories: (1) general expenses, (2) printing, (3) consumables, (4) communications, (5) training and travel, (6) freight express drainage, (7) repairs and maintenance, (8) personnel services and fringes, (9) postage, (10) equipment, (11) building use and (12) medical consultants. We selected a stratified random sample of 100 items from each FY based on the percentage of costs in each category to total costs.

**Appendix B**

## Illinois Bureau of Disability Determination Services Consultative Examination Costs

<b>FY 1999 MEDICAL CONSULTATIVE EXAMINATION COSTS</b>					
<b>IL-BDDS</b>					
<b>CODE/ LOCATIONS</b>	<b>NUMBER OF INVOICES</b>	<b>MEDICARE RATE</b>	<b>ALLOWABLE COSTS</b>	<b>CLAIMED COSTS</b>	<b>UNALLOWABLE COSTS</b>
<b>Special Medical Exam: Formal Diagnostic Consultation, Internist</b>					
<b>1800</b>		<b>99203</b>			
SUBURBS	2,524	\$ 85.91	\$ 216,837	\$ 261,220	\$ 44,383
CHICAGO	22,880	\$ 88.22	\$ 2,018,474	\$ 2,402,416	\$ 383,942
DOWNSTATE	6,650	\$ 77.60	\$ 516,040	\$ 694,780	\$ 178,740
EAST ST. LOUIS	226	\$ 81.14	\$ 18,338	\$ 29,832	\$ 11,494
Subtotal	32,280		\$ 2,769,689	3,388,248	\$ 618,559
<b>Test for intellectual capacity to include WAIS-III (Wechsler Adult Intelligence Scales III)</b>					
<b>2100</b>		<b>96100</b>			
SUBURBS	611	\$ 93.90	\$ 57,373	\$ 61,100	\$ 3,727
CHICAGO	2,617	\$ 97.85	\$ 256,073	\$ 261,700	\$ 5,627
DOWNSTATE	391	\$ 76.98	\$ 30,099	\$ 39,100	\$ 9,001
EAST ST. LOUIS	141	\$ 83.99	\$ 11,843	\$ 14,100	\$ 2,257
Subtotal	3,760		\$ 355,388	\$ 376,000	\$ 20,612
<b>Ventilation studies before and after bronchodilator, 3 FEV1 attempts and total vital capacity</b>					
<b>94060</b>		<b>94060</b>			
CHICAGO	4,590	\$ 63.16	\$ 289,904	\$ 436,050	\$ 146,146
DOWNSTATE	369	\$ 51.86	\$ 19,136	\$ 35,055	\$ 15,919
Subtotal	4,959		\$ 309,040	\$ 471,105	\$ 162,065
<b>Test for intellectual capacity to include WISC-III (Wechsler Intelligence Scales for Children)</b>					
<b>98246</b>		<b>98246</b>			
CHICAGO	3,367	\$ 97.85	\$ 329,461	\$ 336,700	\$ 7,239
SUBURBS	698	\$ 93.90	\$ 65,542	\$ 69,800	\$ 4,258
DOWNSTATE	279	\$ 76.98	\$ 21,477	\$ 27,900	\$ 6,423
Subtotal	4,344		\$ 416,480	\$ 434,400	\$ 17,920
<b>TOTALS</b>	<b>45,343</b>		<b>\$ 3,850,597</b>	<b>\$ 4,669,753</b>	<b>\$ 819,156</b>

<b>FY 2000 MEDICAL CONSULTATIVE EXAMINATION COSTS</b>					
<b>IL-BDDS CODE/ LOCATIONS</b>	<b>NUMBER OF INVOICES</b>	<b>MEDICARE RATE</b>	<b>ALLOWABLE COSTS</b>	<b>CLAIMED COSTS</b>	<b>UNALLOWABLE COSTS</b>
<b>Special Medical Exam: Formal Diagnostic Consultation, Internist</b>					
<b>1800</b>		<b>99203</b>			
CHICAGO	19,970	\$ 103.76	2,072,087	\$ 2,096,850	\$ 24,763
SUBURBS	3,452	\$ 100.89	348,272	\$ 364,565	\$ 16,293
DOWNSSTATE	5,485	\$ 90.25	495,021	\$ 577,065	\$ 82,044
EAST ST. LOUIS	1,175	\$ 94.76	111,343	\$ 123,375	\$ 12,032
Subtotal	30,082		\$ 3,026,723	\$ 3,161,855	\$ 135,132
<b>Test for Intellectual Capacity to Include WAIS-III (Wechsler Adult Intelligence Scales III)</b>					
<b>2100</b>					
SUBURBS	760	97.28	\$ 73,933	\$ 76,000	\$ 2,067
DOWNSSTATE	752	79.79	\$ 60,002	\$ 75,200	\$ 15,198
Subtotal	1,512		\$ 133,935	\$ 151,200	\$ 17,265
<b>Ventilation Studies Before and After Bronchodilator, 3 FEV1 Attempts and Total Vital Capacity</b>					
<b>94060</b>		<b>94060</b>			
CHICAGO	3,395	\$ 62.78	\$ 213,138	\$ 322,430	\$ 109,292
DOWNSSTATE	655	\$ 51.71	\$ 33,870	\$ 62,161	\$ 28,291
Subtotal	4,050		\$ 247,008	\$ 384,591	\$ 137,583
<b>Test for Intellectual Capacity to Include WISC-III (Wechsler Intelligence Scales for Children III)</b>					
<b>98246</b>		<b>96100</b>			
SUBURBS	458	\$ 97.28	\$ 44,554	\$ 45,800	\$ 1,246
DOWNSSTATE	364	\$ 79.79	\$ 29,044	\$ 36,400	\$ 7,356
Subtotal	822		\$ 73,598	\$ 82,200	\$ 8,602
<b>TOTALS</b>	<b>36,466</b>		<b>\$ 3,481,264</b>	<b>\$ 3,779,846</b>	<b>\$ 298,582</b>

## FY 2001 MEDICAL CONSULTATIVE EXAMINATION COSTS

IL-BDDS CODE / LOCATIONS	NUMBER OF INVOICES	MEDICARE RATE	ALLOWABLE COSTS	CLAIMED COSTS	UNALLOWABLE COSTS
<b>Special Medical Exam: Formal Diagnostic Consultation, Internist</b>					
<b>1800</b>		<b>99203</b>			
DOWNSTATE	3,126	\$ 93.40	\$ 291,968	\$ 323,710	\$ 31,742
EAST ST. LOUIS	1,348	\$ 97.99	\$ 132,091	\$ 141,540	\$ 9,449
Subtotal	4,474		\$ 424,059	\$ 465,250	\$ 41,191
<b>Test for Intellectual capacity to include WAIS-III(Wechsler Adult Intelligence Scales III)</b>					
<b>2100</b>		<b>96100</b>			
DOWNSTATE	521	\$ 82.88	\$ 43,180	\$ 52,121	\$ 8,941
Subtotal	521		\$ 43,180	\$ 52,121	\$ 8,941
<b>Ventilation studies before and after bronchodilator, 3 FEV1 attempts and total vital capacity</b>					
<b>94060</b>		<b>94060</b>			
CHICAGO	2,068	\$ 67.06	\$ 138,680	\$ 196,460	\$ 57,780
SUBURBS	112	\$ 65.28	\$ 7,311	\$ 10,640	\$ 3,329
DOWNSTATE	227	\$ 55.35	\$ 12,564	\$ 21,565	\$ 9,001
EAST ST. LOUIS	107	\$ 58.63	\$ 6,273	\$ 10,165	\$ 3,892
Subtotal	2,514		\$ 164,828	\$ 238,830	\$ 74,002
<b>Test for intellectual capacity to include WISC-III (Wechsler Intelligence Scales for Children III)</b>					
<b>98246</b>		<b>96100</b>			
DOWNSTATE	354	\$ 82.88	\$ 29,340	\$ 35,400	\$ 6,060
Subtotal	354		\$ 29,340	\$ 35,400	\$ 6,060
<b>TOTALS</b>	<b>7,863</b>		<b>\$ 661,407</b>	<b>\$ 791,601</b>	<b>\$ 130,194</b>

## **Agency Comments**



## SOCIAL SECURITY

### MEMORANDUM

**Date:** July 22, 2003

**Refer To:** S2D5G2

**To:** Assistant Inspector General  
for Audit

**From:** Regional Commissioner  
Chicago

**Subject:** Administrative Costs Claimed by the Illinois Bureau of Disability Determination Services (Your Request for Comments E-Mailed June 25, 2003) -- REPLY

Attached are the Region's comments on the subject draft report (A-05-02-22019).

We appreciate the challenges and difficulties the audit team faced in reviewing a DDS the size of Illinois. This audit, in particular, was problematic due to a variety of circumstances. A State government reorganization placed the DDS in a newly-created "super-Agency". The transition to this new structure prevented the timely completion of indirect cost agreements. Also, while documentation in support of the DDS' medical fee schedule was readily available, it was not shared with the review team. Finally, a finding that medical payments were charged to the wrong fiscal year was based on faulty data provided by DDS' parent agency. The timing of these unfortunate circumstances compounded the problems faced by the audit team.

Thank-you for the opportunity to comment on the draft findings and recommendations.

Questions about this memorandum may be directed to Jim Jamison, Financial Management Team Leader, at 312.575.4212.

/s/  
James F. Martin

Attachment

cc: Deputy Commissioner for Operations  
Deputy Commissioner for Finance Assessment and Management



Comments on findings/recommendations included in draft report “Administrative Costs Claimed by the Illinois Bureau of Disability Determination Services (OIG Audit No. A-05-02-22019)”:

**1. Finding/Recommendation: Instruct IL-DHS to refund \$4,917,423 for indirect costs inappropriately charged to SSA for FYs 1999 through 2001.**

We agree that the Illinois DDS over-obligated indirect costs in FYs 1999-2001. However, we question that this issue is an appropriate audit finding. Additionally, we are concerned with the conclusion reached in the report (Page 8) that “the overstated obligations were caused by using improper indirect cost rates”.

- The Agency has a long-established process for adjusting indirect cost charges when final indirect rates are determined. This process, which strictly adheres to regulatory policy, allows indirect costs to be claimed using an agreed upon “provisional” rate (generally, this is the last final/approved rate).
- During the FYs in question, the DDS appropriately claimed indirect costs using a provisional rate of 13.9 percent, as instructed in the indirect cost rate agreement in force at that time. It was not until a new provisional rate of 9 percent was established (October 2002) that any portion of these claimed charges could be considered overstated. The final rates for FYs 1999 and 2000, and the new provisional rate for all subsequent periods (used by the audit team to calculate the “overdraw”) were not established until April 2003. This was several months after the audit team had completed their fieldwork in the DDS.
- The DDS independently applied the new rates soon after the new agreement was signed. Fiscal reports (SSA-4513s) submitted in January and April 2003 clearly show the DDS self-reported the overstated indirect costs for FYs 1999-2002. This was done in the normal course of SSA/DDS procedures.

Whether or not this finding is removed from the final audit report, we believe the amount of funds in question needs modification. In addition to establishing final and provisional cost rates, the indirect cost agreement dated April 21, 2003, modified the indirect cost base to include all fringe benefits. Previously, the base (to which the indirect cost rate is applied) excluded charges for employee group insurance. Using this larger base, the chart on Page 4 (if this finding is still included in the final report) should be modified as follows:

<b>FY</b>	<b>PERCENTAGE</b>	<b>AMOUNT CLAIMED</b>	<b>ALLOWABLE</b>	<b>UNALLOWABLE</b>
1999	(see note below)	\$3,790,148	\$2,662,014	\$1,128,134
2000	7.5	\$3,599,266	\$2,183,235	\$1,416,031
2001	7.5	\$3,812,458	\$2,321,963	\$1,490,495
<b>TOTALS</b>		\$11,201,872	\$7,167,212	\$4,034,660

Note: The calculation of allowable costs was based on actual negotiation rates, 9.6 percent for the first 3 quarters and 7.5 percent for the 4<sup>th</sup> quarter of FY 1999.

**2. Finding/Recommendation: Instruct the IL-DHS to improve its oversight of CE fees and limit future payments to the highest rate allowable by Federal or other State agencies in Illinois.**

We agree that the DDS is required to maintain documentation that the rate of payment for medical evidence and CEs does not exceed the highest rate paid by Federal or public agencies in the State for the same or similar services [20 CFR 404.1519K (a)]. While we are uncertain why this information was not made available to the audit team, the DDS fee schedule has historically been based on fees paid by its parent agency, the IL-DHS. Also, the IL-DHS's fees are routinely "crosswalked" with those paid by the Illinois Department of Public Aid. As such, the DDS fee schedule is in full compliance with the previously cited regulation. In fact, the DHS and the DDS share a vendor payment system that prohibits payment in excess of the DHS's schedule. We have reminded the DDS staff that proper documentation (e.g., a printout of the DHS fee schedule) should be maintained in the DDS.

Regarding the potential savings if the DDS would follow the Medicare fee schedule, this issue has previously been addressed by the Agency. In OIG Audit No. A-07-99-21004 (Appendix D – Agency Comments) the Acting Commissioner stated, "We disagree with the assertion in the Executive Summary that medical services provided for Medicare and DDSs are the same or very similar and that there is no reason for DDSs to reimburse medical providers at fees higher than those allowed by Medicare". There are several reasons for higher reimbursement rates:

- The nature of the "service" differs (reimbursement for medical treatment versus evaluation of disability);
- The price-setting mechanism differs (Medicare reimbursements have been limited by Congressional action in recent years; marketplace considerations may affect CE costs);
- SSA may reasonably pay a higher price for a CE in order to get fast and reliable medical information to process a medical determination;
- States may use other public (Federal or State) fee schedules.

While there is no dollar amount included in this finding, the report identifies "potential savings" of \$1.2 million in using the Medicare fee schedule, and includes this amount in the \$6 million of "overstated obligations" in the opening paragraph on Page 8. We believe the conclusions on this page should reflect actual monetary findings and not "potential savings".

**3. Finding/Recommendation: Instruct IL-DHS to reclassify \$668,344 of expenditures incorrectly reported on the SSA-4513s in the wrong FYs.**

This finding identified \$440,000 in medical payments that had been charged to the wrong FY. However, other State fiscal reports show the charges to be appropriate. On further investigation, the DDS determined that a special computer "run", which was the basis for this finding, contained a coding error. The program has been corrected, and the report rerun. The revised report indicates that all charges were made to the appropriate FY, and that no reclassification of medical payments is necessary.

Concerning the remaining \$228,250 obligated for postage and leasehold improvements, we agree with this recommendation. The Illinois DDS will be making the necessary modifications to SSA-4513s for the FYs in question. However, we believe it should be noted that this recommendation did not find any of these expenditures to be inappropriate.

**4. Finding/Recommendation: Instruct IL-DHS to establish procedures for reporting expenditures in the correct FY.**

We agree with this recommendation and have instructed the DDS to establish procedures, or modify existing procedures, to ensure obligations are reported in the correct FY.



Rod R. Blagojevich, *Governor*

Carol L. Adams, Ph.D., *Secretary*

**Office of Rehabilitation Services  
Bureau of Disability Determination Services**

P.O. Box 19250 • Springfield, IL 62794-9250 • 217/782-7160 (VOICE) • 217/524-2985 (TTY) • 217/785-7714 (FAX)

**MEMORANDUM**

TO: Steven L. Schaeffer  
Assistant Inspector General for Audit

FROM: Carol L. Adams, Ph.D.  
Secretary, Department of Human Services

DATE: July 25, 2003

SUBJECT: Administrative Costs Claimed by the Illinois Bureau of Disability  
Determination Services

Attached are the Illinois Bureau of Disability Determination Services (BDDS) comments on the subject draft audit report (A-05-02-22019).

We believe that the initial finding dealing with indirect costs is inappropriate. The Bureau followed standard procedure with respect to the calculation of indirect costs. The finding concerning the amount paid for consultative examinations (CEs) follows past audit findings. The Bureau has been following Office of Inspector General (OIG) opinion concerning medical fees paid for CEs. The finding concerning medical payments charged to the wrong fiscal year is in question as the BDDS has determined this finding was based on faulty data provided to the auditors and in actuality the payments were charged to the correct years. The finding of charging incorrect vouchers to the wrong Federal Fiscal year was accurate and has been corrected.

Thank you for the opportunity to comment on the draft findings and recommendations.

Questions about this memorandum may be directed to Ann P. Robert, Deputy Director at (217) 782-8283.

Attachment

Cc: Deputy Commissioner for Operations  
Deputy Commissioner for Finance Assessment and Management

Response to findings/recommendations included in draft report  
 “Administrative Costs Claimed by the Illinois Bureau of Disability  
 Determination Services (OIG Audit No. A-05-02-22019)”:

**1. Finding/Recommendation: Instruct Illinois Department of Human Services to refund \$4,917,423 for indirect costs inappropriately charged to SSA for FYs 1999 through 2001.**

The Illinois Bureau of Disability Determination Services (BDDS) did over-obligated indirect costs in FYs 1999-2003. The BDDS does question the issue of it being an appropriate audit finding. The obligations in question were calculated utilizing the current and available indirect cost rates, which were appropriate.

The BDDS has always adjusted indirect cost charges when final indirect rates were determined. This process, follows regulatory policy, allows indirect costs to be claimed using an agreed upon “provisional” rate until a new rate is finalized. The BDDS applied the new rates soon after the new agreement was signed. Fiscal reports (SSA-4513s) submitted in January and April 2003 shows the BDDS reported the overstated indirect costs for FYs 1999-2002. This was done in the normal course of SSA/DDS procedures, not as a result of an audit investigation.

The BDDS believes they appropriately claimed indirect costs using a provisional rate of 13.9 percent, as instructed in the indirect cost rate agreement in force at that time. It was not until a new provisional rate was established (October 2002) that any portion of these claimed charges could be considered overstated. The final rates for FYs 1999 and 2000, and the new provisional rate for all subsequent periods were not established until April 2003 well after the auditors fieldwork had been completed in the BDDS.

The newly established final and provisional cost rates agreement dated April 21, 2003, modified the indirect cost base to include all fringe benefits. In the previous indirect cost agreement, the base (to which the indirect cost rate is applied) excluded charges for employee group insurance.

Using this larger base, the chart on Page 4 (if this finding is still included in the final report) should be modified as follows:

<b>FY</b>	<b>PERCENTAGE</b>	<b>AMOUNT CLAIMED</b>	<b>ALLOWABLE</b>	<b>UNALLOWABLE</b>
1999	(see note below)	\$3,790,148	\$2,662,014	\$1,128,134
2000	7.5	\$3,599,266	\$2,183,235	\$1,416,031
2001	7.5	\$3,812,458	\$2,321,963	\$1,490,495
<b>TOTALS</b>		\$11,201,872	\$7,167,212	\$4,034,660

Note: The calculation of allowable costs was based on actual negotiation rates, 9.6 percent for the first 3 quarters and 7.5 percent for the 4<sup>th</sup> quarter of FY 1999.

**2. Finding/Recommendation: Instruct the IL-DHS to improve its oversight of CE fees and limit future payments to the highest rate allowable by Federal or other State agencies in Illinois.**

The BDDS agrees that they are required to maintain documentation that the rate of payment for medical evidence and CEs does not exceed the highest rate paid by Federal or public agencies in the State for the same or similar services [20 CFR 404.1519K (a)]. While we are uncertain why this information was not made available to the audit team, the BDDS fee schedule has historically been based on fees paid by our parent agency, the Illinois Department of Human Services (DHS). DHS fees are monitor at least annually with those paid by the Illinois Department of Public Aid. The BDDS fee schedule is in full compliance with the previously cited regulation. The BDDS share a vendor payment system which is supported by DHS that prohibits payment in excess of the DHS's schedule.

The BDDS agrees with and has been adhering to the OIG Audit No. A-07-99-21004 Acting Commissioner statement, "We disagree with the assertion in the Executive Summary that medical services provided for Medicare and DDSs are the same or very similar and that there is no reason for DDSs to reimburse medical providers at fees higher than those allowed by Medicare". There are several reasons for higher reimbursement rates:

- The nature of the "service" differs (reimbursement for medical treatment versus evaluation of disability);
- The price-setting mechanism differs (Medicare reimbursements have been limited by Congressional action in recent years; marketplace considerations may affect CE costs);
- SSA may reasonably pay a higher price for a CE in order to get fast and reliable medical information to process a medical determination;
- Higher fees maybe paid at times due to the inability to find medical providers in the southern portion of the state to perform needed exams;
- States may use other public (Federal or State) fee schedules.

The BDDS believes this should not be a finding since we are following the instructions from the response to a previous OIG audit.

**3. Finding/Recommendation: Instruct IL-DHS to reclassify \$668,344 of expenditures incorrectly reported on the SSA-4513s in the wrong FYs.**

This finding identified \$440,000 in medical payments that had been charged to the wrong FY. The BDDS determined that a special computer "run" for the auditors, which was the basis for this finding, contained a coding error. The program has been corrected, and the report rerun. The revised report indicates that all charges were made to the appropriate FY, and we feel that no reclassification of medical payments is necessary. The corrected program is available for review if necessary.

The BDDS agrees with the recommendation of \$228,250 obligated for postage and leasehold improvements being charged to the incorrect year. The BDDS will be making the necessary modifications to SSA-4513s for the FYs in question. It is important to note that this recommendation did not find any of these expenditures to be inappropriate.

**5. Finding/Recommendation: Instruct IL-DHS to establish procedures for reporting expenditures in the correct FY.**

We agree with this recommendation and will strive to ensure all obligations and expenditures are reported in the correct FY.

## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

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

Teresa Williams, Deputy Director, (312) 353-0331

### ***Acknowledgments***

In addition to those named above:

Robert Lenz, Senior Auditor

Richard Dubin, Auditor

Elizabeth Juarez, Auditor

Sherman Doss, Auditor

For additional copies of this report, please visit our web site at [www.ssa.gov/oig](http://www.ssa.gov/oig) or contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-1375. Refer to Common Identification Number A-05-02-22019.



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Illinois Bureau of Disability Determination Services

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## **Office of Audit**

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.

## **Office of Executive Operations**

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.

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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.