



SOCIAL SECURITY

MEMORANDUM

Date: March 10, 2003

Refer To:

To: The Commissioner

From: Inspector General

Subject: Disability Determination Services' Use of Volume Consultative Examination Providers (A-07-02-12049)

The attached final Management Advisory Report presents the results of our review. Our objectives were to determine why only a small number of State Disability Determination Services receive discounts on consultative examinations purchased from volume medical providers and whether the potential exists to increase discounts from volume medical providers.

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 Steven L. Schaeffer, Assistant Inspector General for Audit, at (410) 965-9700.

A handwritten signature in blue ink, appearing to read "James G. Huse, Jr.".

James G. Huse, Jr.

Attachment

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**DISABILITY DETERMINATION
SERVICES'
USE OF VOLUME CONSULTATIVE
EXAMINATION PROVIDERS**

March 2003

A-07-02-12049

**MANAGEMENT
ADVISORY 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

OBJECTIVES

Our objectives were to determine (1) why only a small number of State Disability Determination Services (DDS) receive discounts on consultative examinations (CE) purchased from volume medical providers (VMP) and (2) whether the potential exists to increase CE discounts from VMPs.

BACKGROUND

In making disability determinations for the Social Security Administration (SSA), the DDSs are responsible for obtaining sufficient medical evidence from treating sources (medical sources who have or have had an ongoing treatment relationship with the claimant) to determine whether the claimant is disabled under the law. However, when medical evidence is not available or is insufficient, DDSs purchase CEs, to include medical and psychological examinations, x-rays, and laboratory tests. SSA procedures define a VMP as one specializing in performing CEs for State agencies. Usually, a VMP is a provider with estimated CE billings of \$100,000 or more, annually.

RESULTS OF REVIEW

Our review disclosed that 38 of the 54 DDSs purchased CEs from VMPs during Fiscal Year 2001. The other 16 DDSs stated that small CE workloads did not attract VMPs. However, only 5 of the 38 DDSs that purchased CEs from VMPs received CE discounts. The remaining 33 DDSs that purchased CEs from VMPs offered various reasons for not receiving discounts, with low CE rates cited as the primary reason. Specifically, some of the DDSs stated their CE fees were lower than Medicare rates. We confirmed that four of the five DDSs that received discounts from VMPs in Fiscal Year 2001 had CE rates lower than Medicare's rates.

We believe the potential exists to increase CE discounts at some DDSs, especially those that have established relationships with VMPs. Furthermore, SSA needs to assist the DDSs in expanding the use of negotiated discounts with VMPs as a means of reducing medical costs and should concentrate on those DDSs where such an approach would be cost beneficial to the Agency. We also identified best practices that may improve the DDSs ability to procure discounts from VMPs.

RECOMMENDATIONS AND AGENCY COMMENTS

We recommend that SSA (1) identify the methods and processes used by the New York, Florida, and Oregon DDSs to obtain discounts from multiple VMPs and disseminate the information to other DDSs and (2) provide guidance to the DDSs for recruiting VMPs and negotiating discounted CE fees. SSA agreed with our recommendations. See Appendix E for the full text of SSA's comments.

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Acronyms

CE	Consultative Examination
CPT	Current Procedural Terminology
DDS	Disability Determination Services
DI	Disability Insurance
FY	Fiscal Year
OD	Office of Disability
OIG	Office of the Inspector General
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
VMP	Volume Medical Provider

Introduction

OBJECTIVES

Our objectives were to determine (1) why only a small number of State Disability Determination Services (DDS) receive discounts¹ on consultative examinations (CE) purchased from volume medical providers (VMP) and (2) whether the potential exists to increase discounts from VMPs.

BACKGROUND

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

Disability determinations under the DI and SSI programs are made by the DDSs in each State or other responsible jurisdiction in accordance with Federal regulations.² The DDS is responsible for obtaining evidence sufficient to determine whether the claimant is disabled under the law.³ In making disability determinations, the DDSs obtain medical evidence from the claimants' treating sources.⁴ However, when this medical evidence is not available or is insufficient to make a disability determination, the DDS can purchase CEs.⁵ Each State is responsible for determining the rate of payment used by its DDS to purchase CEs.⁶ Accordingly, CE rates of payment vary among the DDSs.

Concerned about rising DDS medical costs, the Social Security Administration (SSA) encouraged the DDSs to contain medical spending. In response, the DDSs decreased the average national medical cost per case slightly from \$110 per case in Fiscal Year

¹ A discount occurs when the CE rate of payment to a medical provider is less than the maximum fee allowed in the DDS fee schedule.

² 20 C.F.R. §§ 404.1601, *et seq.* and 416.1001, *et seq.*

³ 20 C.F.R. §§ 404.1614 and 416.1014.

⁴ A treating source is a claimant's own physician, psychologist, or other acceptable medical source that has provided the individual with medical treatment or evaluation and has or has had an ongoing treatment relationship with the individual. (20 C.F.R. §§ 404.1502 and 416.902).

⁵ 20 C.F.R. §§ 404.1519a and 416.919a. (CEs include medical and psychological examinations, x-rays, and laboratory tests.). In addition, the treating source is usually the preferred source to perform the CE (20 C.F.R. §§ 404.1519(h) and 416.919(h)).

⁶ 20 C.F.R. §§ 404.1624 and 416.1024.

(FY) 1999 to \$107 per case in FY 2001. However, medical costs remain a concern at the national level and for particular DDSs. Nationally, in the first 6 months of FY 2002, the medical cost per case averaged \$119, which is \$8 per case over the projected \$111 cost per case. From FY 1999 to FY 2001, the medical cost per case increased for some DDSs. For example, the Texas DDS' medical cost per case increased \$11.76 to a total of \$127.02, and the Georgia DDS had an increase of \$21.19, raising the total to \$142.31 per case.⁷

Agency procedures define a VMP as a medical provider that specializes in performing CEs for State agencies. Usually, a VMP is a provider with estimated billings of \$100,000 or more annually for CEs.⁸

SCOPE AND METHODOLOGY

We developed a questionnaire to collect information from the DDSs on CEs purchased from VMPs during FY 2001. In January 2002, SSA's Office of Disability (OD) sent our questionnaire to all 54 DDSs, asking them to provide responses to OD. In March 2002, we received the DDS' responses from OD.

Our analysis of the questionnaires and subsequent discussions with the DDS' staff identified five DDSs (New York, Florida, Oregon, Michigan, and Nevada) that received discounts on CEs purchased from VMPs during FY 2001, and we selected these DDSs for our review. We also selected five additional DDSs (California, Georgia, Illinois, Ohio, and Texas) to determine why they had not obtained discounts on CEs from VMPs. These DDSs were selected because they had CE expenditures of \$10 million or more during FY 2001, which would indicate a greater possibility of discounts from VMPs because of larger CE workloads.

For the 10 DDSs included in our review, we did the following.

- We interviewed DDS staff to obtain information on their CE processes, including experiences with VMPs.
- We obtained the CEs comprising 50 percent or more of FY 2001 CE expenditures and asked the DDSs for assistance in crosswalking⁹ their CE codes to the 2001 Medicare current procedural terminology (CPT) codes.¹⁰ We did not verify information received from the DDSs in terms of types, numbers or dollar amounts of CEs. We then compared DDS' rates of payment for the CEs to Medicare's rates of

⁷ Medical cost per case information provided by the Office of Disability.

⁸ Program Operations Manual System (POMS), DI 39542.205B.

⁹ Crosswalking is the process of identifying which medical service (and its associated CPT code) on the Medicare fee schedule is the same or similar to the DDS' CE.

¹⁰ The CEs comprising 50 percent or more of the FY 2001 expenditures are not necessarily the same CE services for which the DDSs received discounts.

payment for the same or similar medical service to determine the variances between Medicare and DDS rates of payment.

We performed our field work between March and July 2002 in Kansas City, Missouri. The audited entities were DDSs under the Deputy Commissioner for Disability and Income Security Programs.

Results of Review

Our review disclosed that 38 of the 54 DDSs purchased CEs from VMPs during FY 2001. The remaining 16 DDSs stated that small CE workloads did not attract VMPs (Appendix A). However, only 5 of the 38 DDSs that purchased CEs from VMPs received CE discounts (New York, Florida, Oregon, Nevada, and Michigan). Of these, the New York, Florida, and Oregon DDSs reported more success in obtaining discounts from multiple VMPs than the Michigan and Nevada DDSs.

The remaining 33 DDSs offered various reasons for not receiving discounts, with low CE rates of payment cited as the primary reason (Appendix B). Specifically, some of the DDSs stated that their CE fees were lower than Medicare rates of payment, which are considered low rates of payment by some in the medical community. However, we confirmed that four of the five DDSs that received discounts from VMPs in FY 2001 were able to obtain discounts even though their CE rates were lower than Medicare's rates of payment.

DDSs RECEIVING DISCOUNTS FROM VMPs

In FY 2001, the New York, Florida, Oregon, Nevada, and Michigan DDSs received discounts on CEs purchased from VMPs. The New York, Florida, and Oregon DDSs reported more success in recruiting multiple VMPs and negotiating discounts than the Nevada and Michigan DDSs. The VMP experiences of these five DDSs are discussed below.

New York DDS

Since 1986, the New York DDS has used competitive bidding¹¹ to obtain CEs from VMPs. Initially, the DDS concentrated its competitive bidding efforts in the most densely populated areas of the State where large medical communities existed. Later, the DDS expanded competitive bidding to other, less populated areas of the State. The New York DDS staff stated that securing VMPs had not been a problem. However, they informed us that competitive bidding works best in areas where the minimum population is 300,000 to 400,000.

In FY 2001, VMPs received about 94 percent of the \$25 million expended by the New York DDS for CEs. During this period, the DDS purchased CEs from 11 VMPs, of

¹¹ A DDS may use the competitive bidding process if State law and the DDS' parent agency so allow. Briefly, the process involves preparing a Request for Proposals in which the DDS sets forth the requirements that bidders must meet. Requirements for CE services include such factors as condition and location of the facility, types of services needed, what the DDS expects the bidder to charge for services, services the DDS will and will not pay for, DDS expectations for timeliness and quality of reports, when the provider will be paid, and policies on no-show appointments. Interested bidders submit a technical proposal and a financial proposal, and proposals are evaluated and ranked by the DDS and/or the parent agency. Bidders who meet or exceed the DDS's requirements are awarded contracts.

which 5 were secured through competitive bidding. Securing VMPs by competitive bidding has reduced the New York DDS' medical costs. The DDS could not provide us a dollar savings, but estimated cost savings from VMPs ranged from 9 to 45 percent.

Florida DDS

Since the early 1980s, the Florida DDS has been successful at informally negotiating CE discounts with its VMPs. The DDS staff attributed the success to (1) large urban areas with large numbers of medical providers to compete for CEs, (2) professional relations staff who are aggressive in recruiting VMPs and negotiating CE discounts, and (3) management that supports recruitment of VMPs and discount negotiation efforts.

In FY 2001, the Florida DDS spent about \$13.6 million to purchase CEs. About 18 percent of this payment went to 15 VMPs at discounted fees. The DDS was unable to provide us cost savings that resulted from discounted fees from VMPs because data were not readily accessible.

Oregon DDS

Since 1984, the Oregon DDS has used competitive bidding to obtain CEs from VMPs at discounted fees. DDS staff stated that competitive bidding began as one method of controlling medical costs. The DDS reported no problems in recruiting VMPs.

In FY 2001, the DDS spent about \$4.1 million on CEs. The Oregon DDS paid 19 percent of the total to its three VMPs who discounted fees. The DDS reported savings of \$51,594 in FY 2001. However, the savings represented only 6.7 percent of the CE costs incurred for VMPs and related to a fee schedule that was significantly higher than Medicare fees paid for comparable services.

Nevada DDS

In FY 2001, the Nevada DDS had one VMP who formerly worked for the Illinois DDS and retired to Nevada. The medical provider agreed to perform comprehensive physical examinations for the Nevada DDS at a substantial discount. DDS staff estimated the DDS saved about \$59,000 in FY 2001. About 13 percent of the DDS' FY 2001 total CE expenditures of \$1.5 million went to this VMP.

The Nevada DDS has been unsuccessful in recruiting additional VMPs. Nevada DDS staff stated that recruiting VMPs was a problem because medical providers complain the CE fees are too low. The DDS further attributed its lack of success in securing VMPs to the State's sparse population. There are only two major urban areas in Nevada: Reno/Carson City and Las Vegas. Most claimants in rural areas must travel to one of the two urban areas for a CE.

Michigan DDS

In FY 2001, the Michigan DDS spent about \$7.2 million purchasing CEs, and about 59 percent of the total was paid to eight VMPs. Michigan reported little success in securing VMPs to perform CEs at discounted fees. In FY 2001, only one of Michigan's eight VMPs offered a discounted fee, and the discount was only \$1 per CE.

According to DDS staff, VMPs considered the DDS' CE fees too low, and competitive bidding was not successful. The Michigan DDS' unsuccessful attempt at competitive bidding began a decade ago in Wayne County, the most densely populated county, which includes Detroit. Few medical providers met the requirements to competitively bid. Three clinics were awarded 3-year contracts. One clinic withdrew its bid, and the other two clinics experienced start-up problems, such as volume distribution and scheduling. After 3 years, instead of starting over, the DDS extended the contracts for another term. After this term expired, the DDS had problems rebidding the contracts. Only two clinics met the qualifications, but one clinic was \$40 above the DDS' fee schedule. The other provider gave the DDS a \$1 discount on each CE. In FY 2002, this provider would not renew the contract, and the DDS put competitive bidding on hold.

DDSs NOT RECEIVING DISCOUNTS FROM VMPs

We also selected five large CE volume DDSs for our review to determine why they did not obtain discounts on CEs from their VMPs (California, Georgia, Illinois, Ohio, and Texas). These DDSs were selected based on having annual CE expenditures of \$10 million or more, accounting for 34 percent of all CE expenditures in the United States during FY 2001.

We would expect these DDSs to have success at negotiating discounts on CEs given the large volume of CEs purchased. However, staff from these five DDSs attributed low CE rates of payment as the foremost reason for not securing discounts from their VMPs.

California DDS

During FY 2001, VMPs received about 63 percent of the California DDS' total CE payments (see Appendix C). DDS staff stated that recruiting VMPs is not a problem in urban areas. However, the DDS staff stated it had not attempted to negotiate discounted CE fees with the VMPs because its CE fee schedule is too low to expect discounts. DDS staff also stated that it has avoided attempting to secure discounts through competitive bidding because it would be administratively burdensome. For example, each of the DDS' 12 branch offices would have separate contracts for VMPs in their respective areas, and the branch offices do not have sufficient staff to monitor the contracts.

Georgia DDS

VMPs received about 24 percent of the Georgia DDS' total CE payments in FY 2001 (see Appendix C). The Georgia DDS staff stated that recruiting VMPs is a problem, and securing discounts from VMPs is difficult because of the DDS' low CE fee schedule. DDS staff said the fee schedule is rarely changed because the process is lengthy. To raise a fee, the DDS must conduct an impact study and obtain approval from the executive management team and the parent agency. According to the staff, the Georgia DDS tried competitive bidding several years ago, but no bidders responded, probably because the DDS' CE fees were below Medicare rates.

Illinois DDS

In FY 2001, VMPs received about 32 percent of the Illinois DDS' total CE payments (see Appendix C). The staff stated that recruiting VMPs is not difficult, but the DDS does not use contracting or competitive bidding. In fact, staff reported there is an abundance of VMPs interested in performing CEs for the DDS. However, the staff stated that discounts were not negotiated with VMPs because the VMPs complain about the low rates of payment and the low volume of CE referrals. The staff said the DDS fee schedule essentially has not changed for 10 years, but the costs of doing business have increased for VMPs.

Ohio DDS

In FY 2001, VMPs received about 52 percent of the Ohio DDS' total CE payments (see Appendix C). Recruiting VMPs is not a problem, but the DDS staff said that none of the VMPs are happy with the CE rates of payment. The Ohio DDS was considering competitive bidding to reduce medical costs and visited the New York DDS to learn more about contracting. There was some hesitation to pursue competitive bidding because of potential obstacles, including (1) DDS staff have to expend resources on administrative tasks related to contracting, (2) low CE fees prevented VMPs from bidding for CEs, and (3) potential problems canceling contracts because of poor VMP performance.

Texas DDS

In FY 2001, VMPs received about 32 percent of the Texas DDS' total CE payments (see Appendix C). According to Texas DDS staff, Texas State law prohibits the DDS from using a competitive bidding process,¹² but the DDS is allowed to negotiate rates of payment for CEs. Recruiting VMPs is not a problem for the Texas DDS. However, the staff stated that VMPs complained about its low CE fees. The staff also said the DDS paid VMPs the lower of the provider's billed amount or the DDS fee schedule. Discounts were not negotiated with VMPs because the DDS considers its fee schedule already heavily discounted.

¹² Texas Government Code § 2254.003.

COMPARISON OF DDS AND MEDICARE FEES

The five DDSs in our review that did not obtain discounts from VMPs cited already low CE fees as the common reason discounts were not obtained. To determine whether the CE fees at these five DDSs varied significantly from the CE fees at the five DDSs that obtained discounts from VMPs, we compared the CE fee schedule amounts to Medicare fees for the same or similar service. This comparison was performed for each of the 10 DDSs for the CEs that comprised 50 percent or more of their total FY 2001 CE expenditures (see Appendix D for comparison examples).

Our comparison disclosed that most CE fees for 9 of the 10 DDSs (5 DDSs without discounts and 4 DDSs with discounts) were less than the 2001 Medicare fees.¹³ Our review of the experiences of four of the nine DDSs (Florida, Michigan, Nevada and New York) shows that low CE fees did not prevent VMPs from providing discounts.

POTENTIAL IMPACT OF VMP DISCOUNTS

Of the 38 DDSs that purchased CEs from VMPs, 33 did not receive discounts. In FY 2001, the 33 DDSs expended about \$69.4 million to purchase CEs from VMPs. If these DDSs received even minimal CE discounts from VMPs, SSA could realize significant savings.

Discount Percentage	Potential Annual Savings in CE Costs (in millions)
5	\$ 3.47
10	\$ 6.94
15	\$10.41
20	\$13.88

For the details, see Appendix C.

BEST PRACTICES FOR OBTAINING DISCOUNTS

In our communications with DDS staffs, we identified several factors that improved DDS success in obtaining discounts from VMPs. The factors include the following.

- A professional relations staff trained in aggressive VMP recruiting and discount negotiation.

¹³ The Oregon DDS had CE fees based on workers' compensation rates that were higher than Medicare fees. In part, DDS fee schedule amounts lower than the 2001 Medicare rates result from either the DDS's or parent agency's decision not to update fee schedule amounts. For examples, Florida and Illinois have not updated their respective fee schedule amounts since 1991, and Nevada and New York have not updated since 1997.

- Large urban populations, numbers of medical providers, and large CE workloads attract VMP competition.
- Medical providers see timely DDS payments as an incentive.
- Elimination of unnecessary paperwork makes a medical provider more willing to perform CEs for the DDS.
- The DDS' administrative burden can be lightened with access to State contracting and legal departments to assist in the competitive bidding process, contract development and contract monitoring.
- DDS management must be willing to provide the resources necessary for recruiting VMPs.
- Experimentation with competitive bidding and/or contracting in a limited geographical area with a limited number of medical providers will help the DDSs to gain experience and resolve start-up problems before expanding the process to other areas of the State.
- Medical providers who are newly licensed or starting a new practice may be more likely to perform CEs at discounted fees.

Conclusions and Recommendations

We recognize that all DDSs may not be able to secure discounts from VMPs because of such factors as size and varying workloads. However, the DDSs should aggressively attempt to recruit VMPs that perform CEs at discounted fees before concluding that such discounts are not possible. In FY 2001, the New York, Florida, and Nevada DDSs showed that some VMPs would provide CE discounts even when DDS rates of payment already are considered low by some in the medical community.

SSA and the DDSs should explore discounts from VMPs as a way of reducing rising medical costs. These efforts should include experimenting with competitive bidding and/or informal negotiations to obtain discounts on CEs from VMPs. We believe that SSA needs to assist the DDSs in expanding the use of negotiated discounts with VMPs as a means of reducing medical costs and should concentrate on those DDSs where such an approach would be cost beneficial to the Agency.

We are recommending that SSA:

1. Identify the methods and processes used by the New York, Florida, and Oregon DDSs to obtain discounts from multiple VMPs and disseminate the information to other DDSs.
2. Provide guidance to the DDSs on recruiting VMPs and negotiating discounted CE fees.

AGENCY COMMENTS

SSA agreed with our recommendations. Specifically, SSA will request the New York, Florida, and Oregon DDSs to share their expertise in obtaining discounts from VMPs and will send a memorandum of “best practices” to all DDSs. (See Appendix E for the full text of SSA’s comments.)

Appendices

Appendix A

Disability Determination Services' Reasons for Not Using Volume Medical Providers in Fiscal Year 2001

Disability Determination Services	REASONS FOR NO VOLUME MEDICAL PROVIDERS
Delaware	Numbers of consultative examinations (CEs) insufficient to produce a \$100,000 provider.
Guam	Disability Determination Services purchased \$16,000 in CEs for FY 2001—small workload.
Hawaii	Has "volume vendors," but none fit the \$100,000 criterion.
Idaho	Has "volume vendors," but none fit the \$100,000 criterion.
Iowa	Has "volume vendors," but none fit the \$100,000 criterion; dispersed population, difficult to have volume medical providers (VMP).
Maine	Small population does not permit high volume of CEs in any one area or specialty.
Montana	Does not have the workload in any one area to support VMPs.
New Hampshire	Numbers of CEs in given area or specialty are insufficient to produce a VMP.
North Dakota	Small population, annual workload of 5,400 claims.
Puerto Rico	Has one VMP, but did not reach the \$100,000 criterion.
Rhode Island	Small population—VMPs are not practical.
South Dakota	Small population, annual workload of 8,000 claims, does not fit the \$100,000 criterion.
Utah	Small population, do not have the demand for VMPs.
Vermont	Number of claimants cannot support a VMP.
Virgin Islands	Too small for volume.
Wyoming	Small population; has no provider with \$100,000 worth of services.

Appendix B

Reasons Disability Determination Services Did Not Secure Discounts on Consultative Examinations from Existing Volume Medical Providers in Fiscal Year 2001

Disability Determination Services	REASONS FOR NO DISCOUNTS						
	VMPs have made special accommodations	Quality of exams and reports may suffer	DDS uses fee schedule rates of payment set by the parent agency	Fee schedule reflects low or noncompetitive payment rates	Noncompetitive fees cause difficulty in recruiting, maintaining CE panel	DDS cannot guarantee the volume of exams	Other Reasons or Notes
Alabama	✓		✓				
Alaska			✓				Parent agency requires payment for CEs at the medical provider's usual and customary charges.
Arizona	✓		✓	✓			VMPs receive an additional fee for traveling to remote areas.
Arkansas			✓				
California			✓	✓	✓		
Colorado			✓				Parent agency requires DDS to competitively bid some CEs. Fees to VMPs are based on contract agreements.
Connecticut	✓	✓	✓				
District of Columbia			✓	✓			
Georgia			✓	✓	✓		
Illinois		✓	✓	✓			
Indiana			✓	✓			
Kansas			✓	✓			
Kentucky	✓		✓	✓	✓		
Louisiana			✓	✓			
Maryland		✓	✓	✓		✓	Vendor rotation system required by parent agency.
Massachusetts			✓	✓			
Minnesota			✓	✓		✓	
Mississippi			✓	✓	✓		
Missouri			✓				
Nebraska		✓	✓	✓			
New Jersey		✓	✓			✓	Wants flexibility in scheduling CEs.
New Mexico		✓	✓	✓			
North Carolina	✓	✓	✓	✓			
Ohio			✓	✓			
Oklahoma	✓		✓	✓			
Pennsylvania			✓				Wants to preserve relations by using community-based providers.
South Carolina			✓	✓			
Tennessee			✓	✓	✓		
Texas			✓	✓			
Virginia			✓				
Washington			✓	✓			
West Virginia			✓				
Wisconsin			✓	✓	✓		

Appendix C

Hypothetical Discounts at 33 Disability Determination Services That Did Not Receive Discounts from Volume Medical Providers

#	DDSs	ACTUAL PAYMENTS			HYPOTHETICAL DISCOUNTS			
		TOTAL DDS CE PAYMENT	VMP PAYMENT	% VMP PYMT	5% OF VMP PAYMENT	10% OF VMP PAYMENT	15% OF VMP PAYMENT	20% OF VMP PAYMENT
1	Alabama	\$ 7,063,218	\$ 425,818	6.03%	\$ 21,291	\$ 42,582	\$ 63,873	\$ 85,164
2	Alaska	\$ 1,038,784	\$ 264,541	25.47%	\$ 13,227	\$ 26,454	\$ 39,681	\$ 52,908
3	Arizona	\$ 3,457,643	\$ 488,313	14.12%	\$ 24,416	\$ 48,831	\$ 73,247	\$ 97,663
4	Arkansas	\$ 2,858,514	\$ 216,037	7.56%	\$ 10,802	\$ 21,604	\$ 32,406	\$ 43,207
5	California	\$ 34,700,904	\$ 21,945,061	63.24%	\$ 1,097,253	\$ 2,194,506	\$ 3,291,759	\$ 4,389,012
6	Colorado	\$ 3,134,854	\$ 1,596,198	50.92%	\$ 79,810	\$ 159,620	\$ 239,430	\$ 319,240
7	Connecticut	\$ 2,213,794	\$ 157,025	7.09%	\$ 7,851	\$ 15,703	\$ 23,554	\$ 31,405
8	District of Columbia	\$ 971,811	\$ 265,212	27.29%	\$ 13,261	\$ 26,521	\$ 39,782	\$ 53,042
9	* Georgia	\$ 12,751,358	\$ 3,115,825	24.44%	\$ 155,791	\$ 311,583	\$ 467,374	\$ 623,165
10	Illinois	\$ 10,505,026	\$ 3,322,320	31.63%	\$ 166,116	\$ 332,232	\$ 498,348	\$ 664,464
11	Indiana	\$ 5,340,158	\$ 1,603,038	30.02%	\$ 80,152	\$ 160,304	\$ 240,456	\$ 320,608
12	Kansas	\$ 2,104,846	\$ 642,750	30.54%	\$ 32,138	\$ 64,275	\$ 96,413	\$ 128,550
13	Kentucky	\$ 6,187,152	\$ 2,626,827	42.46%	\$ 131,341	\$ 262,683	\$ 394,024	\$ 525,365
14	Louisiana	\$ 7,644,523	\$ 2,073,152	27.12%	\$ 103,658	\$ 207,315	\$ 310,973	\$ 414,630
15	Maryland	\$ 3,431,600	\$ 246,248	7.18%	\$ 12,312	\$ 24,625	\$ 36,937	\$ 49,250
16	Massachusetts	\$ 1,071,926	\$ 246,923	23.04%	\$ 12,346	\$ 24,692	\$ 37,038	\$ 49,385
17	Minnesota	\$ 2,651,208	\$ 963,132	36.33%	\$ 48,157	\$ 96,313	\$ 144,470	\$ 192,626
18	Mississippi	\$ 3,428,921	\$ 822,641	23.99%	\$ 41,132	\$ 82,264	\$ 123,396	\$ 164,528
19	Missouri	\$ 4,271,236	\$ 769,191	18.01%	\$ 38,460	\$ 76,919	\$ 115,379	\$ 153,838
20	Nebraska	\$ 1,254,125	\$ 193,147	15.40%	\$ 9,657	\$ 19,315	\$ 28,972	\$ 38,629
21	New Jersey	\$ 7,029,138	\$ 3,199,901	45.52%	\$ 159,995	\$ 319,990	\$ 479,985	\$ 639,980
22	New Mexico	\$ 1,731,743	\$ 165,228	9.54%	\$ 8,261	\$ 16,523	\$ 24,784	\$ 33,046
23	North Carolina	\$ 9,790,655	\$ 1,444,535	14.75%	\$ 72,227	\$ 144,454	\$ 216,680	\$ 288,907
24	Ohio	\$ 14,146,179	\$ 7,397,034	52.29%	\$ 369,852	\$ 739,703	\$ 1,109,555	\$ 1,479,407
25	Oklahoma	\$ 3,644,084	\$ 780,047	21.41%	\$ 39,002	\$ 78,005	\$ 117,007	\$ 156,009
26	Pennsylvania	\$ 9,540,197	\$ 241,554	2.53%	\$ 12,078	\$ 24,155	\$ 36,233	\$ 48,311
27	South Carolina	\$ 5,575,261	\$ 571,374	10.25%	\$ 28,569	\$ 57,137	\$ 85,706	\$ 114,275
28	Tennessee	\$ 8,900,185	\$ 2,083,387	23.41%	\$ 104,169	\$ 208,339	\$ 312,508	\$ 416,677
29	Texas	\$ 21,831,456	\$ 7,022,493	32.17%	\$ 351,125	\$ 702,249	\$ 1,053,374	\$ 1,404,499
30	Virginia	\$ 3,787,188	\$ 340,434	8.99%	\$ 17,022	\$ 34,043	\$ 51,065	\$ 68,087
31	Washington	\$ 5,893,144	\$ 1,609,000	27.30%	\$ 80,450	\$ 160,900	\$ 241,350	\$ 321,800
32	West Virginia	\$ 3,360,598	\$ 1,538,531	45.78%	\$ 76,927	\$ 153,853	\$ 230,780	\$ 307,706
33	Wisconsin	\$ 3,684,032	\$ 1,037,679	28.17%	\$ 51,884	\$ 103,768	\$ 155,652	\$ 207,536
TOTALS**		\$ 214,995,461	\$ 69,414,596		\$ 3,470,730	\$ 6,941,460	\$10,412,189	\$13,882,919

* Annual payment to Georgia's VMPs was estimated from 3 quarters of information.

** Due to rounding error, one or more totals may be slightly skewed.

Appendix D

Comparison of Disability Determination Services' Rates for Consultative Examinations to Medicare's Rates

Three Examples of Disability Determination Services With Discounts

Of the five Disability Determination Services (DDS) with discounts, the Florida, New York, and Oregon DDSs reported more success securing discounts from volume medical providers (VMP). The Florida and New York DDSs had consultative examination (CE) fee schedule amounts that were less than 2001 Medicare fee schedule rates (except for x-rays in New York). On the other hand, the Oregon DDS obtained discounts from VMPs perhaps because of having considerably higher CE fee schedule amounts than the 2001 Medicare rates.

To compare DDS fee schedule amounts to the 2001 Medicare rates, we asked DDSs in this review to send us the types of CEs most frequently purchased by the DDS that account for at least 50 percent of its FY 2001 CE expenditures and the fee schedule amounts. We did not verify the information sent to us by the DDSs.

Florida DDS: Since the early 1980s, the Florida DDS has been securing discounts by having the staff negotiate with VMPs. The Florida DDS' fee schedule is based on 1991 Medicare rates, and the staff indicated that CEs were obtained at or below these rates in FY 2001. The DDS could not provide us with the amount of savings obtained through discounted CEs.

To compare the DDS' fees to the 2001 Medicare fees, the DDS provided us with two CE types that accounted for at least 50 percent of its FY 2001 CE expenditures. In the table below, the data indicate the DDS fee schedule amounts were lower than the crosswalked examinations in the 2001 Medicare fee schedule.

FLORIDA DDS							
DDS CODE	DESCRIPTION	DOLLAR AMOUNT	MEDICARE CODE	DESCRIPTION	DOLLAR AMOUNT	Dollar Difference	Percent Difference
90630 *	General Medical	\$ 123.79	99243	Office Consultation (Detailed)	\$ 139.64	\$(15.85)	(13)
A211 *	Psychological	\$ 121.01	90801	Psychiatric Examination	\$ 171.60	\$(50.59)	(42)

* We performed the crosswalk to Medicare codes.

New York DDS: The New York DDS has used competitive bidding since 1986 to secure discounts from VMPs. The DDS' fee schedule is based on State workers' compensation fees. In FY 2001, the DDS claimed savings that varied from 9 to 45 percent, based on the contractor, location and amount of discount.

To compare the DDS' fee schedule amounts to the 2001 Medicare rates, the New York DDS provided us with four CE types that accounted for at least 50 percent of its FY 2001 CE expenditures. In the table below, data for New York DDS show that the fee schedule amounts of three of the four CEs are lower than the crosswalked examinations in the 2001 Medicare fee schedule (except for x-rays).

NEW YORK DDS							
DDS CODE	DESCRIPTION	DOLLAR AMOUNT	MEDICARE CODE	DESCRIPTION	DOLLAR AMOUNT	Dollar Difference	Percent Difference
90003 *	Complete Psychiatric Examination	\$ 95.00	90801	Psychiatric Diagnostic Interview Examination	\$ 191.42	\$(96.42)	(101)
90001 *	Complete Specialist Examination	\$ 95.00	99243	Office Consultation (Detailed)	\$ 157.29	\$(62.29)	(66)
90002 *	Complete Orthopedic Examination	\$ 95.00	99243	Office Consultation (Detailed)	\$ 157.29	\$(62.29)	(66)
72100**	X-ray Spine, Lumbar, Sacral, Ap And Lateral	\$ 88.00	72100	Radiological Exam, Spine, Lumbosacral; Ap and Lateral	\$ 56.47	\$ 31.53	36

* We performed the crosswalk to Medicare codes. ** The DDS provided the Medicare code.

Oregon DDS: Since 1984, the Oregon DDS has used competitive bidding to secure discounts from VMPs. Like New York's fee schedule, Oregon DDS' fee schedule is based on State workers' compensation fees. In FY 2001, the DDS claimed a \$51,594 savings from discounted CEs.

To compare the DDS' fee schedule amounts to the 2001 Medicare fees, Oregon DDS provided us with three CE types that accounted for at least 50 percent of the DDS' total CE expenditures in FY 2001. In the following table, data show that the DDS fee schedule amounts of the three CEs were higher than the crosswalked examinations in the 2001 Medicare fee schedule.

OREGON DDS							
DDS CODE	DESCRIPTION	DOLLAR AMOUNT	MEDICARE CODE	DESCRIPTION	DOLLAR AMOUNT	Dollar Difference	Percent Difference
E114 *	Psychodiagnostic	\$243.97	99244	Office Consultation (Comprehensive)	\$ 182.43	\$ 61.54	25
E105 *	Orthopedic	\$243.97	99244	Office Consultation (Comprehensive)	\$ 182.43	\$ 61.54	25
E116 *	Adult Neuropsychological	\$515.12	96117	Neuropsychological Testing Battery	\$ 239.31	\$275.81	54

* The DDS performed the crosswalk to Medicare codes.

Appendix E
Agency Comments



SOCIAL SECURITY

MEMORANDUM

32077-24-881

Date: January 31, 2003

Refer To: S1J-3

To: James G. Huse, Jr.
Inspector General

From: Larry Dye /s/
Chief of Staff

Subject: Office of the Inspector General Draft Management Advisory Report, "Disability Determination Services' Use of Volume Consultative Examinations Providers" (A-07-02-12049)—
INFORMATION

We appreciate OIG's efforts in conducting this review. Our comments and recommendations are attached.

Please let us know if we can be of further assistance. Staff questions can be referred to Janet Carbonara on extension 53568.

Attachment:
SSA Response

COMMENTS ON THE OFFICE OF THE INSPECTOR GENERAL (OIG) DRAFT
MANAGEMENT ADVISORY REPORT, “DISABILITY DETERMINATION SERVICES’ USE
OF VOLUME CONSULTATIVE EXAMINATION PROVIDERS” (A-07-02-12049)

We thank you for the opportunity to review this draft management advisory report and appreciate your efforts. It is Agency policy to make every effort to ensure that purchases of consultative examinations (CE) by State Disability Determination Services (DDS) follow the appropriate regulatory guideline with regard to fee schedules.

We believe that it is part of the Agency oversight responsibility to continue to advocate that DDSs share their best practices to foster efficiency and low costs in the CE process. In Appendix C of this report, there is a list of potential savings if DDSs were able to negotiate discounts from Volume Medical Providers (VMPs). However, we believe even under the best circumstances these savings cannot be realized.

Recommendation 1

Identify the methods and processes used by the New York, Florida, and Oregon DDSs to obtain discounts from multiple VMPs and disseminate the information to other DDSs.

Comment

We will contact New York, Florida and Oregon by May 2003, to request that they share their expertise in obtaining discounts from VMPs. We will then prepare a memorandum to transmit their “best practices” to all the DDSs.

Recommendation 2

Provide guidance to the DDSs on recruiting VMPs and negotiating discounted CE fees.

Comment

We will contact New York, Florida and Oregon by May 2003, to request that they share their expertise in obtaining discounts from VMPs. We will then prepare a memorandum to transmit their “best practices” to all the DDSs.

OIG Contacts and Staff Acknowledgments

OIG Contact

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Acknowledgments

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