OFFICE OF
THE INSPECTOR GENERAL

SOCIAL SECURITY ADMINISTRATION

ADMINISTRATIVE COSTS CLAIMED BY THE MISSISSIPPI DISABILITY DETERMINATION SERVICES

May 2007 **A-08-06-16125**

AUDIT REPORT

Mission

By conducting independent and objective audits, evaluations and investigations, we inspire public confidence in the integrity and security of SSA's programs and operations and protect them against fraud, waste and abuse. We provide timely, useful and reliable information and advice to Administration officials, 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

We strive for continual improvement in SSA's programs, operations and management by proactively seeking new ways to prevent and deter fraud, waste and abuse. We commit to integrity and excellence by supporting an environment that provides a valuable public service while encouraging employee development and retention and fostering diversity and innovation.

SOCIAL SECURITY

MEMORANDUM

Date: May 18, 2007 Refer To:

To: Paul D. Barnes
Regional Commissioner
Atlanta

From: Inspector General

Subject: Administrative Costs Claimed by the Mississippi Disability Determination Services (A-08-06-16125)

OBJECTIVE

Our objectives were to (1) evaluate the Mississippi Disability Determination Services' (MS-DDS) internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed for Federal Fiscal Years (FFY) 2004 and 2005 were allowable and properly allocated and funds were properly drawn, and (3) assess limited areas of the general security controls environment.

BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State or other responsible jurisdiction, according to the Code of Federal Regulations (C.F.R.).[1] Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.[2]

To make proper disability determinations, each State agency is authorized to purchase consultative examinations (CE) and medical evidence of record from the claimants' physicians or other treating sources.[3] SSA reimburses the State agency for 100 percent of allowable expenditures. The DDSs report program disbursements and unliquidated obligations on Form SSA-4513, *State Agency Report of Obligations for*

[1] 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

[2] *Id*.

[3] SSA, Program Operations Manual System (POMS), DI 39545.001.B.4.

SSA Disability Program.[4] The DDS withdraws Federal funds through the Department of the Treasury's Automated Standard Application for Payments system to pay for program expenditures. MS-DDS is a component of the Mississippi Department of Rehabilitation Services (MDRS). For additional background, scope and methodology, see Appendix B.

RESULTS OF REVIEW

MS-DDS' controls over the accounting and reporting of administrative costs for FFYs 2004 and 2005 were generally effective to ensure costs claimed were allowable and properly allocated and funds were properly drawn. However, MS-DDS reimbursed medical providers for certain procedures using payment rates that exceeded the maximum rates paid by Federal or other agencies in the State for the same or similar types of service. The excess CE payments totaled $25,812.

In addition, MDRS incorrectly charged $1,869 for "use allowances"[5] on equipment that was no longer in service. Furthermore, we determined MDRS' Cost Allocation Plan (CAP) was outdated and not always followed.

Finally, our limited review of MS-DDS' security controls environment indicated controls were generally adequate. However, we identified some areas where MS-DDS' controls did not protect claimant data and office facilities.

CE COSTS

Federal regulations require that each State determine the payment rates for medical or other services necessary to make disability determinations. States are responsible for monitoring and overseeing payment rates for medical and other services to ensure the rates do not exceed the highest rate paid by Federal or other agencies in the State.[6] However, we determined that MS-DDS reimbursed medical providers at rates that exceeded the maximum rates allowed under Federal regulations.

MS-DDS provided us a list of the codes it used for its CE rates and a crosswalk with the American Medical Association's Current Procedural Terminology coding system. We compared the rates MS-DDS paid for its x-rays, laboratory tests, and other medical services with the rates paid by Medicare and Mississippi's Worker's Compensation Commission.[7] Our comparison showed that, for 16 procedures, MS-DDS used

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[4] POMS, DI 39506.200(B)(4), *The Reporting Process – Recording and Reporting Obligations*, states "Unliquidated obligations represent obligations for which payment has not yet been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received."

[5] Like depreciation, use allowances are a means of allocating costs over the length of an asset's use.

[6] 20 C.F.R. §§ 404.1624 and 416.1024; 20 C.F.R. §§ 404.1519k(c) and 416.919k(c).

[7] In evaluating the reasonableness of MS-DDS' rates, we used the highest fee paid by either Medicare or Worker's Compensation.

payment rates that exceeded the highest rates allowed under these programs. Based on our calculations, we believe MS-DDS spent $25,812 during our audit period on excessive CE fees (see Appendix C). During our audit field work, MS-DDS did not provide justification for using CE payment rates that exceeded the maximum rates paid by Federal or other agencies in the State or evidence that SSA approved these higher rates.

UNALLOWABLE EQUIPMENT USE ALLOWANCES

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, prohibits charges for use allowances on equipment items that are no longer in service.[8] However, MDRS included use allowances in its Support Services indirect cost pool for 15 computers, 2 desks, 1 credenza, and 1 laser printer even though the Agency had disposed of the equipment. MDRS officials told us that, contrary to OMB guidance, the Agency generally charges use allowances for equipment until it recovers the cost of the item—even after the item's disposal.

Using the equipment disposition date for each item, we determined the number of quarters during the audit period for which MDRS erroneously included a use allowance in the indirect cost pool. We determined that use allowances on these items after their disposition totaled $6,128 ($2,076 for FFY 2004 and $4,052 for FFY 2005). Based on an average indirect cost pool rate of 30.5 percent (the DDS program's share of the cost pool), we believe MDRS overcharged the DDS program $1,869.

MDRS' INDIRECT CAP OUTDATED AND NOT ALWAYS FOLLOWED

MDRS' existing CAP was last approved by the Department of Education (DoE) in June 1995. We believe the CAP should be revised because it is outdated and does not reflect current operations. Among other things, the organizational charts, budget information and position descriptions contained in the CAP are no longer accurate. Additionally, MDRS did not always comply with provisions established by the CAP. For example, it did not always charge SSA for indirect personnel costs using the methodology outlined in the approved agreement. As such, we believe MDRS should prepare and submit an updated CAP to DoE. Additionally, we believe SSA should determine whether indirect personnel costs charged to the Agency using methods not provided for in the CAP were appropriate.

CAP Outdated

DoE approved MDRS' existing CAP in June 1995. Since that time, MDRS' organizational structure has changed, and some of the position descriptions in the CAP have been modified or are no longer relevant. Additionally, budget information in the CAP is from August 1994, which provides a significantly outdated picture of MDRS' and MS-DDS' financial requirements.

[8] Attachment B, section 11.h. (revised May 1, 2004).

Some examples of the discrepancies between the CAP and current operations include the following.

- MDRS provides services through an Office of Special Disability Programs, which is not shown in the CAP organizational chart.

- The CAP contains position descriptions for a (1) Director, Office of Strategic Planning, and (2) Property Officer Trainee. These positions were not filled during our audit period. However, the duties of these positions appeared to have been absorbed by other positions.

- Some positions that appeared administrative in nature were not included in the CAP. For example, the CAP allows for one "Switchboard Operator Supervisor." The indirect personnel costs for this position are allocated between MDRS' programs through the Support Services indirect cost pool. However, a second switchboard operator who appeared to perform the same duties was not included in the CAP, and the personnel costs for this position were distributed among the three programs using a methodology not provided for in the agreement.

In a June 20, 1995 letter approving MDRS' CAP, DoE stated " . . . in accordance [sic] OMB Circular A-87 and Subpart E of 45 CFR 95, this approval is continuous until the allocation methods shown in the CAP need revision because of organizational changes within your department, legislative or regulatory changes, or a new CAP is submitted by you . . . Amendments to your CAP would be required for any changes indicated above. The sole responsibility for submitting proposed revisions rests with MDRS. . . . "

In accordance with this guidance, we believe MDRS should submit a revised CAP, which better reflects current operations, to the cognizant Federal agency, DoE, for consideration, negotiation and approval.

CAP Not Always Followed

During our audit period, MDRS distributed over 20 employees' personnel costs to SSA using various allocation methods (for example, space utilization percentages, the number of purchase orders prepared and the number of payment vouchers processed) that were not provided for in the CAP. Additionally, MDRS did not request an amendment to the CAP before using these alternate allocation methods.

MDRS' CAP describes 34 positions that are designed to be filled with employees who provide services to 3 MDRS programs, including MS-DDS. The CAP specifies that, for these administrative positions, costs will be allocated "based on a proportion of salaries and fringe benefits charged to each Office when compared to the total salaries and fringe benefits." During our audit period, the proportion of these costs charged to MS-DDS, and ultimately SSA, averaged about 30 percent. However, because the CAP was outdated, some positions that were administrative in nature and provided services to other MDRS programs were not included in these 34 position descriptions. As such,

MDRS used other methods it believed appropriate to allocate their costs. Additionally, in one instance, although a position was specified in the CAP, MDRS elected an alternate method to allocate its costs.

For example, MDRS decided to use space-utilization percentages developed approximately 10 years ago for its main office building to distribute the personnel costs of several Office of Administrative Services' staff members. Using this methodology, MDRS billed almost 60 percent of these employee's personnel costs to MS-DDS—rather than the approximately 30 percent allowed by the CAP. Included among these staff members were (1) MDRS' Physical Plant Director, (2) a Branch Director who served as a Property Officer, (3) a switchboard operator, and (4) two individuals who operated its office supply warehouse. The CAP indicates that the Physical Plant Director's personnel costs would be distributed through the Support Services indirect cost pool. The Physical Plant Director and Property Officer were positions named in the original CAP and should have been charged to SSA at the lower rate provided in the agreement. Additionally, as mentioned previously, the switchboard operator appears to provide the same services as the "Switchboard Operator Supervisor." Accordingly, while not specifically named in the CAP, we see no reason a distinction in allocating their costs should be made. Finally, the two office supply warehouse employees provided services to all three MDRS programs and, as such, we believe should have been included in the CAP and billed using the methodology specified in this agreement.

We believe SSA needs to determine whether the various methodologies MDRS used during the audit period to allocate indirect personnel costs among its various programs were appropriate. Additionally, when it revises the existing CAP, MDRS needs to allow for all methodologies it intends to use and seek approval from the cognizant Federal Agency, DoE. Finally, MDRS needs to implement controls to ensure it complies with its approved CAP.

GENERAL SECURITY CONTROLS

SSA's POMS requires that DDSs adequately safeguard claimant/program information and facilities used by DDS personnel.[9] Although our limited review of MS-DDS' general security controls environment showed controls were generally effective, we identified the following areas where we believe MS-DDS' controls did not adequately protect claimant data and office facilities.

- Employees left case folders and medical records, which contained sensitive information, unattended on their desks as well as in holding areas. SSA policy states, "SSA requires that all claimant records and files be maintained in a locked drawer, cabinet or room when there is no authorized individual on location…."[10]

[9] POMS, DI 39566.001.A. and B.

[10] POMS, DI 39566.110 A.1.

- Fire extinguishers had not been inspected since July 2005. SSA policy requires that fire extinguishers be professionally checked/recharged annually.[11]

- The door hinges to the computer room were visible from outside the room and were not pinned. In addition, the door leading into the computer room area was not locked at all times. SSA policy requires that hinges on a computer room door either face inward or be pinned to prevent the door's removal from its frame.[12]

CONCLUSION AND RECOMMENDATIONS

MS-DDS should strengthen its controls to ensure (1) payments made to medical providers do not exceed the highest rate paid by Federal or other agencies in the State for the same or similar types of service and (2) unallowable equipment use allowances are not charged to the DDS program. In addition, MDRS needs to update its CAP and implement controls to ensure it is followed. Furthermore, MS-DDS needs to strengthen its physical security controls to provide greater assurance that claimants' personal information and the facilities used by DDS staff are adequately safeguarded.

Accordingly, we recommend that SSA instruct MS-DDS and/or MDRS to:

1. Provide justification for using CE payment rates that exceeded the maximum rates paid by Federal or other agencies in the State. In the event MS-DDS cannot provide SSA with adequate justification, it should refund the amounts paid in excess of the maximum allowable rates.

2. Refund $1,869 for unallowable equipment use allowances.

3. Update its CAP and submit it to DoE for approval.

4. Secure sensitive claimant information against unauthorized access at all times.

5. Ensure that fire extinguishers are professionally checked/recharged at least every 12 months.

6. Either replace the hinges on the computer room doors with hinges that contain non-rising hinge pins or ensure that the doors leading into the computer room area remain locked at all times.

Additionally, we recommend that SSA:

7. Consider requiring MS-DDS to refund any indirect personnel costs billed above that permitted by the current CAP.

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[11] POMS, DI 39566.010 B.4.h.

[12] POMS, DI 39566.010 B.2.n.

SSA COMMENTS AND OIG RESPONSE

SSA agreed with Recommendations 3, 4, 5 and 6. Although SSA agreed in principle with Recommendations 1, 2 and 7, it does not plan to pursue any refunds. We believe SSA's planned actions adequately address our concerns. The full texts of SSA's and MS-DDS' comments are included in Appendices D and E.

Patrick P. O'Carroll, Jr.

Appendices

Acronyms

Act	*Social Security Act*
CAP	Cost Allocation Plan
CE	Consultative Examination
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
DoE	Department of Education
FFY	Federal Fiscal Year
MDRS	Mississippi Department of Rehabilitation Services
MS-DDS	Mississippi Disability Determination Services
OMB	Office of Management and Budget
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
SSA	Social Security Administration
SSA-4513	*State Agency Report of Obligations for SSA Disability Programs*
SSI	Supplemental Security Income
U.S.C.	United States Code

Background, Scope and Methodology

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act),[1] provides benefits to wage earners and their families in the event the wage earner becomes disabled.[2] The Supplemental Security Income (SSI) program, established under Title XVI of the Act,[3] provides benefits to financially needy individuals who are aged, blind, or disabled.[4]

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both the DI and SSI programs are performed by disability determination services (DDS) in each State, Puerto Rico and the District of Columbia in accordance with the Code of Federal Regulations (C.F.R.).[5] In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is obtained to support its determinations.[6] Each DDS is also authorized by SSA to purchase consultative medical examinations, such as x-rays and laboratory tests, to supplement evidence obtained from the claimants' physicians or other treating sources.[7]

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved annual funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's Automated Standard Application for Payments system to pay for program expenditures. Funds drawn must comply with Federal regulations and intergovernmental agreements entered into by the Department of the Treasury and States under the *Cash Management Improvement Act of 1990*.[8] An advance or reimbursement for costs under the program must comply with Office of Management

[1] Social Security Amendments of 1954, Pub. L. No. 83-761.

[2] The Act, §§ 201-234, 42 U.S.C. §§ 401-434.

[3] Social Security Amendments of 1972, Pub. L. No. 92-603.

[4] The Act, §§ 1601-1637, 42 U.S.C. §§ 1381-1383f.

[5] 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

[6] *Id.*

[7] SSA, Program Operations Manual System, DI 39545.001.A.

[8] *Cash Management Improvement Act of 1990,* Pub. L. No. 101-453, 104 Stat. 1058 (amending 31 United States Code §§ 6501 and 6503).

and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. At the end of each fiscal quarter, each State agency submits to SSA a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs,* to account for program disbursements, obligations and unliquidated obligations.

The Mississippi Disability Determination Services (MS-DDS) is a component of the Mississippi Department of Rehabilitation Services (MDRS). MS-DDS' Finance Director prepares the Form SSA-4513, but it is signed by the MDRS' Director of Financial Management. MDRS periodically allocates departmental indirect costs to MS-DDS.

SCOPE

We reviewed the administrative costs MDRS reported for MS-DDS on Forms SSA-4513 for Federal Fiscal Years (FFY) 2004 and 2005 through the quarter ended December 31, 2005.

Table 1: MS-DDS Disbursements and Unliquidated Obligations FFYs 2004 and 2005

REPORTING ITEM	FFY 2004 as of 12/31/05	FFY 2005 as of 12/31/05
Disbursements:		
Personnel	$12,223,890	$12,272,837
Medical	7,180,752	7,125,253
Indirect Costs	1,149,340	722,089
All Other Non-Personnel	3,179,615	2,550,645
Total Disbursements	23,733,597	22,670,824
Unliquidated Obligations:		
Personnel	0	0
Medical	43,861	330,057
Indirect Costs	0	0
All Other Non-Personnel	3,401	113,288
Total Unliquidated Obligations	47,262	443,345
Total Obligations	$23,780,859	$23,114,169

To achieve our objectives, we performed the following steps.

- Reviewed applicable Federal regulations; pertinent parts of SSA's Program Operations Manual System (POMS), DI 39501; *DDS Fiscal and Administrative Management*; and other instructions pertaining to administrative costs incurred by the DDS and requests for Federal funds covered by the *Cash Management Improvement Act* agreement.

- Evaluated and tested internal controls regarding accounting, financial reporting, and cash management activities.

- Interviewed MDRS, MS-DDS and SSA personnel.

- Tested the reliability of the electronic disbursement files MS-DDS provided us for the audit period by comparing the disbursements—by cost category and in total—with amounts reported on the Form SSA-4513.

- Examined documentation for statistically selected direct costs transactions (personnel, medical services, and all other non-personnel costs) MS-DDS reported for the period October 1, 2003 through December 31, 2005 to determine whether the costs claimed were allowable under Office of Management and Budget Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, and appropriate, as defined by SSA's POMS.

- Examined the indirect costs MDRS allocated to its various programs for the quarter ended December 31, 2004.

- Compared the amount of SSA funds the MS-DDS requested and received for program operations with the disbursements reported on the Form SSA-4513 for the audit period.

- Conducted a physical inventory of (1) selected equipment items contained on MS-DDS' inventory listing and (2) selected computer hardware items SSA provided to MS-DDS.

- Conducted limited general control testing related to physical access security and security within MS-DDS.

We performed our audit from May through October 2006 at the MDRS' State office building in Madison, Mississippi. We conducted our audit in accordance with generally accepted government auditing standards.

METHODOLOGY

Our sampling methodology encompassed three general areas of costs, as reported on Form SSA-4513: (1) personnel, (2) medical, and (3) all other non-personnel costs. We used computerized data provided by MS-DDS for FFYs 2004 and 2005 through the quarter ended December 31, 2005 to statistically test disbursement transactions it reported for the audit period.

Personnel Costs

We reviewed appropriate personnel and payroll records for 50 randomly selected non-medical personnel for one randomly selected pay period during FFY 2005. In addition, we reviewed supporting documentation for payments made to all medical consultants for one randomly selected pay period during FFY 2005.

Medical Costs

We sampled 100 medical cost items (50 items from each FFY) using a stratified random sample. We distributed the sample items between medical evidence of record and consultative examinations based on the proportional distribution of the total medical costs for each year.

All Other Non-personnel Costs

We selected a stratified random sample of 100 items (50 items from each FFY) from all other non-personnel costs. Before selecting the sample items, we sorted the transactions into the following categories: (1) Occupancy, (2) Contracted, (3) Electronic Data Processing Maintenance, (4) New Electronic Data Processing Equipment, (5) Equipment, (6) Equipment Rental, (7) Communications, (8) Applicant Travel, (9) DDS Travel, (10) Supplies, and (11) Miscellaneous. We then distributed the 50 sample items for each year between categories based on the proportional distribution of the costs.

Calculation of Mississippi Disability Determination Services' Excessive Consultative Examination Costs

Federal Fiscal Year 2004

Current Procedural Terminology (CPT) Code	Mississippi Disability Determination Service (MS-DDS) Code	MS-DDS Fee	Highest Allowable Rate	Difference Between MS-DDS Fee and Highest Allowable Rate	Number of Exams	Amount in Excess of Highest Allowable Rate
93010	S02-1	$30.00	$15.13	$14.87	15	$223.05
93016	S02-B	100.00	38.72	61.28	2	122.56
93015	S02-C	172.97	166.98	5.99	2	11.98
94720	S05	175.00	59.53	115.47	39	4,503.33
92593	S20	85.00	42.96	42.04	119	5,002.76
72100	X04	37.95	36.46	1.49	1,526	2,273.74
73500	X05	31.05	26.41	4.64	138	640.32
73500	X06	31.05	26.41	4.64	111	515.04
73590	X13	28.75	28.27	0.48	9	4.32
73590	X14	28.75	28.27	0.48	11	5.28
72069	X32	39.00	30.50	8.50	44	374.00
73550	X42	32.20	30.13	2.07	9	18.63
76020	X50	34.50	31.84	2.66	2	5.32
73565	X77	50.60	27.90	22.70	47	1,066.90
73565-26	X77-1	20.68	18.60	2.08	48	99.84
					Total	**$14,867.07**

Federal Fiscal Year 2005

CPT Code	MS-DDS Code	MS-DDS Fee	Highest Allowable Rate	Difference Between MS-DDS Fee and Highest Allowable Rate	Number of Exams	Amount in Excess of Highest Allowable Rate
93010	S02-1	$30.00	$15.13	$14.87	3	$44.61
93016	S02-B	100.00	38.72	61.28	1	61.28
94720	S05	175.00	59.53	115.47	21	2,424.87
92593	S20	85.00	42.96	42.04	100	4,204.00
72100	X04	37.95	36.46	1.49	1,291	1,923.59
73500	X05	31.05	26.41	4.64	134	621.76
73500	X06	31.05	26.41	4.64	91	422.24
73590	X13	28.75	28.27	0.48	17	8.16
73590	X14	28.75	28.27	0.48	10	4.80
72069	X32	39.00	30.50	8.50	29	246.50
73550	X41	32.20	30.13	2.07	10	20.70
73550	X42	32.20	30.13	2.07	3	6.21
76020	X50	34.50	31.84	2.66	1	2.66
73565	X77	50.60	27.90	22.70	39	885.30
73565-26	X77-1	20.68	18.60	2.08	33	68.64
					Total	**$10,945.32**

Social Security Administration Comments

SOCIAL SECURITY

Refer To: K. Killam 2-5727

MEMORANDUM

Date: May 1, 2007

To: Assistant Inspector General for Audit

From: Regional Commissioner
Atlanta

Subject: Administrative Costs Claimed by the Mississippi Disability Determination Services (DDS) A-08-06-16125

Thank you for the opportunity to comment on the validity of the facts presented in your audit report on the MS DDS' internal controls. We believe that the OIG Audit, regarding the accounting and reporting of cost allocations was detailed and thorough.

Our response to the seven recommendations is as follows:

1. **Recommendation: Instruct the Mississippi Disability Determination Service (MS-DDS) to provide justification for using Consultative Examination payment rates that exceeded the maximum rates paid by Federal or other agencies in the State. In the event the MS-DDS cannot provide the Social Security Administration (SSA) with adequate justification, it should refund the amounts paid in excess of the maximum allowable rates.**

   We agree that in some instances the DDS has charged more than the highest allowable rate for Consultative Examinations (CEs). The audit states that the amount in excess of the highest allowable rate was $14,867.07 however; upon review, it has been determined that several of the charges were the result of improper coding. Had the proper codes been used in those instances, then the amount in excess of the highest allowable rate would have been $6,322.09.

   The MS DDS is located in an area where the availability of physicians and specialists who perform the requisite CEs is very limited.

Many of the charges in excess of the highest comparable rate were for x-ray fees. While some of MS DDS x-ray fees are slightly higher than the highest allowable rate, the current fees enabled the DDS to have x-rays performed by the same provider who performed the purchased medical examination.

This arrangement provides several advantages for the SSA Disability Program. When the examination and the x-ray can be conducted at the same time and at the same facility then both the DDS and the claimant save valuable time. Additionally, the incidence of missed exams is lower.

Based upon the current provider availability in the state, if the fees were lower there possibly would be a more limited number of providers and hospitals willing to conduct the exams, and thus the distance for the claimant to travel would increase and other DDS costs would rise, resulting in a net increase in cost for the disability program.

SSA does not believe that it is in the best interest of the disability program for the MS DDS to pay less than their current rate for CEs. Therefore, we will not pursue a refund of amounts paid in excess of the current maximum allowable rate.

2. Recommendation: Instruct the MS-DDS to refund $1,869 for unallowable equipment use allowances.

While we agree with the finding of the auditors that the MS DDS misapplied the OMB Circular, Attachment B, section 11h, we disagree that the MS DDS should refund $1,869 in unallowable equipment use allowance. The circular requires that use allowances be permitted only if the equipment exists and is in use. The CAP for the MS DDS states that the DDS must apply an equipment use allowance in lieu of a depreciation method. The DDS CAP allows depreciation of data processing equipment up to 12.5% while all other equipment is depreciated at 6.66%. Computers do not have a very long depreciable life and the DDS must follow OMB regulations regarding equipment use allowances. We believe that 12.5% is not a sufficient rate for computers and SSA recommends that the DDS work to develop a new CAP. In that CAP, the DDS should move from a user allowance to a depreciation method in accounting for computer equipment use.

Since the DDS has a CAP in place and their interpretation of the cost allocation reference of the OMB Circular A-87 was applied in good faith, we will not pursue a refund of $1,869. However, we will work with the DDS to ensure that a new CAP is developed and put in place as soon as possible.

3. **Recommendation: Instruct the Mississippi Department of Rehabilitation Services (MDRS) to update its Cost Allocation Plan (CAP) and submit it to the Department of Education for approval.**

   We concur with this recommendation. We will ensure that the DDS develops and updates their CAP.

4. **Recommendation: Instruct the MS-DDS to secure sensitive claimant information against unauthorized access at all times.**

   We concur with this recommendation. The MS DDS Security Officer has already taken action and issued a memorandum to all employees concerning the necessity of safeguarding claimant information at all times. No further action is required.

5. **Recommendation: Instruct the MS-DDS to ensure that fire extinguishers are professionally checked/recharged at least every 12 months.**

   We concur with this recommendation. The MS DDS has already taken steps to resolve this finding. No further action is required.

6. **Recommendation: Instruct the MS-DDS to either replace the hinges on the computer room doors with hinges that contain non-rising hinge pins or ensure that the doors leading into the computer room area remain locked at all times.**

   We concur with this recommendation. Security of claimant information is of great concern to SSA. We agree that the hinges on the computer room door should be replaced. We will work with MS DDS to get a cost estimate for the necessary modifications.

7. **Recommendation: Consider requiring MS-DDS to refund any indirect personnel costs billed above that permitted by the current CAP.**

   We concur in part with this recommendation. Previously, in response to recommendation number 3, we concurred with the need for the MS DDS to update their CAP and will work with them to that end. Following the approval of the new CAP, should there be any excess indirect personnel costs billed, we will require the DDS to refund such amounts, if any. Although not all forms of allocating personnel costs were reported in the current CAP, these allocations appear reasonable and have been reviewed and approved by the Rehabilitation Services Administration which is a division of the US Department of Education, the cognizant agency.

Please contact me if I can be of further assistance. Staff questions should be referred to Eleanor Barrineau at (404) 562-1417 or Karen Killam at (404) 562-5727.

Paul D. Barnes

cc: Mr. H.S. McMillan
Ms. Jo Ann Summers
Ms. Connie Surber
Ms. Eleanor Barrineau

State Agency Comments

Mississippi Department of Rehabilitation Services

Providing the freedom to live

April 12, 2007

Mr. Patrick O'Carroll, Jr.
Office of Inspector General
Social Security Administration
6401 security Blvd
Suite 300-Altmeyer Blvd
Baltimore, MD 21235

Dear Mr. Carroll;

The Mississippi Department of Rehabilitation Services (MDRS) wishes to express appreciation for the professional manner in which the staff of the Office of Inspector General performed their review of the Disability Determination Services program administered by MDRS. The report is a positive one noting that MDRS' internal controls over the accounting and reporting of administrative costs were generally effective to ensure costs claimed were allowable and properly allocated and funds were properly drawn down. Additionally, although the report does reflect seven recommendations, it is noteworthy to point out that the items noted did not result in any significant weaknesses in our ability to administer the program.

Having voiced the above, we would like to provide the following responses to the recommendations as reported in the OIG Report entitled "Administrative Costs Claimed By the Mississippi Disability Determination Services". These responses are identified in Attachment A.

Thank you for the opportunity to respond to this report.

Sincerely,

H.S. McMillan
Executive Director

1281 Hwy 51 N. Madison MS 39110 • P.O. Box 1698 Jackson MS • 601-853-5100 (Voice or TDD)

Attachment A

Recommendation #1: Provide justification for using CE payment rates that exceeded the maximum rates paid by Federal or other agencies in the State. In the event MS-DDS cannot provide SSA with adequate justification, it should refund the amounts paid in excess of the maximum allowable rates.

Response: To ensure that we address each item noted by the auditor, we have broken our response for this recommendation into each code in question. Please see below for comments:

S02-I (Wrong CPT Code used) – Correct CPT would be 93018
Highest Allowable Rate for 93018 is $26.02 (WC Fee)
Amount in Excess is $3.98

S02B (Wrong CPT Code used) - Correct CPT would be 93017
Highest Allowable Rate for 93017 is $102.25 (WC Fee)
DDS Fee with this CPT is not in Excess.

S02C This is a Tennessee Fee (If you notice the MS Fee Schedule for S02 C has (TN ONLY). This means Tennessee only. I am not sure why this appears on the Mississippi fee schedule. It shows for the Federal Fiscal Year 2004 only.

S05 There are two CPT codes associated with the S05. We get ABG's with the DLCO. These CPT Codes would be 94720 (for the DLCO) and 82803 (for the ABG's). The highest allowable fees would be $99.22 (WC Fee) for the DLCO and $89.54 (WC Fee) for the ABG portion. The total combined fee for these two CPT Codes would be $188.76 which would not be in excess. We should change the exam description on the fee schedule to DLCO with ABG's.

S20 (Wrong CPT Code used) - Correct CPT would be 92557
Highest Allowable Rate for 92557 is $74.42 (WC Fee)
The Mississippi fee is $85. The amount in excess is $10.58.
We have only 6 sources in Mississippi that can perform the audiology testing per Social Security Administration guidelines. These sources have worked with us for a very long time. With the limited CE sources we have to perform the audiology testing, I feel decreasing the CE fee by $10.58 would not benefit us. Recruitment efforts for this test have been unsuccessful.

X04, X05, X06, X13, X14, X32, X42, and X50 - These x-rays are over the highest allowable rate. I have had phone calls from CE sources that the x-rays fees are too low.
Recently, I received a call from a hospital CFO informing me that our rates of pay are too low. He specifically was referring to our x-ray fees. He indicted that they

may not be able to do x-rays for us any longer. I asked him to write a letter about his concerns regarding fees.

X77 and X77-I This is essentially two x-rays in one. In lieu of using this, we would have to order 2 separate x-rays (Right knee x-ray – CPT 73560) and (Left knee x-ray – CPT 73560). The fee would be $25.30 for the right knee and $25.30 for the left knee).
The (right knee x-ray interpretation – CPT 73560-26) and left knee x-ray interpretation – CPT -73560-26). The fee for the right knee interpretation would be $10.34 and the left knee interpretation would be $10.34. These two x-rays and interpretation fees would not be in excess.

Mississippi physicians are serving a largely rural, chronically ill, and medically complicated population (patients frequently face multiple medical conditions) which has had an affect on recruitment. It has been difficult to recruit new sources over the last several years due to our low CE fees. If we start cutting CE fees, I feel the Mississippi DDS could possibly lose valuable CE sources.

Recommendation #2: Refund $1,869 for unallowable equipment use allowance.

Response: MDRS does not concur with the auditor's finding stating that the allocation of equipment through our Cost Allocation Plan for items that were no longer in service is a violation of the Office of Management and Budget Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments.

The auditor's criteria in reporting this finding was #15 Depreciation and Use Allowances under Attachment B – Selected Items of Cost of OMB A-87. Our review of this section confirmed that there is no mention of the inability to allocate the costs associated with equipment after the items are no longer in service. Basically, this section states that the usage allowances will be based on acquisition costs and were purchased with funds of the agency and not funded with federal funding or received through a donation. Additionally, this section states that the allocation of usage charges shall not exceed six and two thirds percent per year and shall not be continually allocated after the costs of equipment have been fully recouped. Lastly, this section states that equipment charged through a use allowance must be supported by adequate property records which includes the taking of at least one physical inventory every two years.

Therefore, MDRS has complied with this circular in that:

- Equipment included in our cost allocation plan is based on acquisition cost less depreciation and was neither donated nor purchased with federal funding. MDRS ensures that acquisition cost is reported by supporting each piece of equipment with a State of Mississippi approved Purchase Order and Payment Voucher.
- MDRS' approved Cost Allocation Plan states that equipment will be allocated to benefiting programs at a rate of six and two-thirds percent per

year. This amount is recouped until each piece of equipment is fully allocated.

- All equipment maintained by MDRS is reported on General Fixed Asset reports and subsequently reported to the State Auditor. Additionally, physical property counts are performed by our Administrative Services in conjunction with the Property Division of the State Auditor's Office.

Recommendation #3 Update its CAP and submit it to DoE for approval.

Response: MDRS concurs with the auditor's comments that all allocation methods currently being performed by MDRS in the allocation of costs are not included in our Approved Cost Allocation Plan. However, we do not concur with the auditor's insinuation that methods not identified in the Cost Allocation Plan may be inappropriate.

MDRS has three procedures in which costs are allocated:

1. Cost Allocation Plan. An approved Cost Allocation Plan is utilized for the allocation of costs that are determined to benefit the entire agency. The procedure for the allocation of these costs is based on the percentage of payroll for each program as compared to the agency's total payroll each quarter. MDRS utilizes a separate State Treasury Fund to ensure that costs are properly charged and are not included as a direct cost to a federal program and subsequently an indirect cost through our Cost Allocation Plan.
2. Monthly Time Distribution. This mechanism is not currently reported in our Cost Allocation Plan; however, this practice was implemented at the recommendation of our federal auditors under The Department of Education - Rehabilitation Services Administration. Therefore, this methodology has been approved for use by the auditors representing our cognizant agency. Under this method, individuals that spend their time working on more than one federal or state program are required to complete a monthly time distribution sheet documenting the number of actual hours spent each day on a particular program. At the conclusion of the month, the information on each time distribution sheet is used to calculate the percentages each employee has spent on each individual program. These calculations are entered in our payroll system for each individual employee, thereby correctly allocating each employee's time. Note that vacation, sick and holiday leave associated with employees identified under this method are allocated in the month for which they are incurred based on that current month's percentages.
3. Quarterly Time Distribution. This mechanism is not currently reported in our Cost Allocation Plan; however, this practice was implemented at the recommendation of our federal auditors under The Department of Education - Rehabilitation Services Administration. Therefore, this methodology has been approved for use by the auditors representing our cognizant agency. Under this method, employees are either not performing a function that benefits every program administered by our agency, their job duties cannot be tied to individual programs for which a Monthly Time Distribution can be utilized, or

the use of the Cost Allocation Plan would not be a fair and equitable method to allocate their time. The following allocation methods are included in this category:

a. Office of Administrative Services – The majority of the salary costs associated with the staff in this division are allocated based on square footage since the duties of these employees are limited to our state office, i.e., grounds maintenance staff. Therefore, these individuals could not be allocated through the Cost Allocation Plan since they are not responsible for our statewide district offices.
b. Purchasing – To ensure the fair and equitable allocation of this division's salary costs, salaries are allocated to benefiting programs based on the number of Purchase Orders issued by each program on a quarterly basis.
c. Finance – The staff that work on more than one program are allocated to each program based on the documents they produce for each program. Therefore, payables staff are allocated based on the number of payment vouchers issued by a program each quarter and receivables staff are allocated based on the number of cash receipts for each program.
d. Human Resources Department – Salary costs associated with this program are allocated based on the number of filled PIN's each quarter.

Additionally, the auditor reported that discrepancies were noted between our CAP and current operations. It should be noted that although an office was added to our agency after the CAP was prepared, the methodology of allocating costs did not change. Therefore, since our CAP states that costs will be allocated based on the proportion of salaries and fringe benefits of each program, as a new office or program is added to MDRS, their salary costs are considered in the allocation of costs to ensure that each program is charged its fair and equitable portion of allocated costs. Additionally, as the agency experiences growth due to new or existing programs, additional personnel may be required to absorb the growth. Determinations are made by MDRS management as to the functions each new position will perform. Based on the responsibility of each position, employees are placed as either a direct cost or as an allocated cost under one of the methods reported above. MDRS maintains adequate internal controls to ensure that each employee is charged in a fair and equitable manner to each program administered by MDRS.

Based on our allocation methods and conversations with our Department of Education – Rehabilitation Services Administration auditors, the allocation of costs associated with our administration of our programs are the most fair and equitable methods to ensure that each program is properly charged for the cost of services that benefit each program. Also, the agency will take the necessary steps to update our CAP to ensure that methods being utilized are included.

Recommendation #4 **Secure sensitive claimant information against unauthorized access at all times.**

Response: We concur with the auditor's statement in which case files and medical records at time may have been left unattended. To ensure we strengthen our internal control over the handling of case files our Security Officer issued a memorandum on March 22, 2007 to all employess reminding them of the necessity and importance of keeping all case files confidential at all times.

Recommendation #5 **Ensure that fire extinguishers are professionally checked/recharged at least every 12 months.**

Response: We concur with the auditor's statement that there were fire extinguishers that had not been inspected annually. We have since corrected this matter and all fire extinguishers have been currently inspected.

Recommendation #6 **Either replace the hinges on the computer room doors with hinges that contain non-rising pins or ensure that the doors leading into the computer room area remain locked at all times.**

Response: We concur with the auditor's statement in which the hinges to a door in the Computer Room were visible from outside the room. However, we do not concur that this would be a weakness or a violation of SSA's policy due to the door in question was an interior door leading from an MIS Manager's office to the computer room. The outside door leading from the computer room to the hallway of the state office building has door hinges properly installed on the inside as well as is properly locked when MIS staff members are not present.

Recommendation #7 **Consider requiring MS-DDS to refund any indirect personnel costs billed above that permitted by the current CAP.**

Response: We do not concur with the auditor recommendation in that any personnel costs billed above that permitted by the current CAP be possibly refunded. All costs allocated by MDRS were performed in a manner that provided the most fair and equitable process for allocating costs to each benefiting program. Although not all forms of allocating personnel costs were reported in the current Cost Allocation Plan, these allocation methods have been reviewed and approved by the Rehabilitation Services Administration which is a division of the US Department of Education, our cognizant agency. For additional comments regarding our allocating of costs, please refer back to our response documented under "Recommendation #3".

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Acknowledgments

In addition to those named above:

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Charles Lober, Information Technology Specialist

Susan G. Evans, Auditor

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