



## SOCIAL SECURITY

### MEMORANDUM

**Date:** October 2, 2003 **Refer To:**

**To:** Horace Dickerson  
Regional Commissioner  
Dallas

**From:** Assistant Inspector General  
for Audit

**Subject:** Administrative Costs Claimed by the New Mexico Disability Determination Services  
(A-06-03-13016)

The attached final report presents the results of our audit. Our objectives were to (1) determine whether costs claimed by New Mexico for Disability Determination Services (DDS) in Fiscal Years 1999 through 2001 were allowable and properly allocated and funds were properly drawn and (2) evaluate the State's internal controls over the accounting and reporting of DDS administrative costs.

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 at (410) 965-9700.

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

Steven L. Schaeffer

### Attachment

cc:  
Lenore R. Carlson  
Jeff Hild  
Candace Skurnik

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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 NEW MEXICO  
DISABILITY DETERMINATION  
SERVICES**

**October 2003**

**A-06-03-13016**

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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**

Our objectives were to (1) determine whether costs claimed by New Mexico for Disability Determination Services (DDS) in Fiscal Years (FY) 1999 through 2001 were allowable and properly allocated and funds were properly drawn and (2) evaluate the State's internal controls over the accounting and reporting of DDS administrative costs.

## **BACKGROUND**

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by a DDS in each State according to Federal regulations. In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is secured to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase consultative medical examinations to supplement evidence obtained from the claimants' physicians or other treating sources. SSA pays the DDS for all necessary expenditures.

## **RESULTS OF REVIEW**

FY 1999 records were unauditible. As a result, we were unable to determine whether disbursements charged for FY 1999 by the DDS were allowable and properly allocated. However, our review of FY 2000 and 2001 data showed disbursements charged to SSA for these 2 years were generally allowable and allocable. We did, however, find that the State claimed \$10,845 in unallowable indirect costs for FYs 2000 and 2001 and had excess cash draws from the Treasury totaling \$22,650.

With respect to internal controls, the State did not maintain adequate accounting records for FY 1999, paid consultative examination fees in excess of Federal regulations limiting such costs, did not comply with SSA's procedures requiring that it give ongoing consideration to the adequacy of CE fees, and did not make timely adjustments to \$545,924 in unliquidated obligations. Also, the Automated Standard Application for Payments system reflected funding balances totaling \$401,264 no longer needed for program operations.

## **RECOMMENDATIONS**

We recommend that SSA work with the State to improve its accounting procedures so that adequate accounting records are maintained. Further, the State should return funds to SSA for unallowable costs and cash draws that exceeded disbursements. We also make a number of recommendations to improve the State's internal controls.

## **SSA COMMENTS**

SSA agreed with all of our recommendations. SSA's comments are included in Appendix C.

## **NEW MEXICO STATE AGENCY COMMENTS**

The State agreed with all of the recommendations except Recommendation 1. The State also disagreed with a specific statement in the report concerning medical consultant contract costs. See Appendix D for the full text of the State's comments.

## **OIG RESPONSE**

Our comments are included on Page 10 of this report.

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# Acronyms

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Act	Social Security Act
ASAP	Automated Standard Application for Payments
CE	Consultative Examination
CMIA	Cash Management Improvement Act
DDS	Disability Determination Services
DI	Disability Insurance
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
NM DVR	New Mexico Division of Vocational Rehabilitation
OMB	Office of Management and Budget
PV	Payment Voucher
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income
Treasury	Department of the Treasury

## OBJECTIVES

Our objectives were to (1) determine whether costs claimed by New Mexico for Disability Determination Services (DDS) in Fiscal Years (FY) 1999 through 2001 were allowable and properly allocated and funds were properly drawn and (2) evaluate the State's internal controls over the accounting and reporting of DDS administrative costs.

## BACKGROUND

The Disability Insurance (DI) program was established in 1954 under Title II of the Social Security Act (Act).<sup>1</sup> The program provides a benefit to wage earners and their families in the event the wage earner becomes disabled.<sup>2</sup> The Supplemental Security Income (SSI) program was created as a result of the Social Security Amendments of 1972. SSI (Title XVI of the Act), which was effective on January 1, 1974, provides a nationally uniform program of income to financially needy individuals who are aged, blind, or disabled.<sup>3</sup>

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 the DI and SSI programs are performed by a DDS in each State according to Federal regulations.<sup>4</sup> In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is secured to support its determinations.<sup>5</sup> To assist in making proper disability determinations, each DDS is authorized to purchase such consultative medical examinations as x-rays and laboratory tests to supplement evidence obtained from the claimants' physicians or other treating sources.<sup>6</sup>

SSA pays the DDS for all necessary expenditures. Each year, SSA approves a DDS budget. Once approved, the DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments (ASAP) system. Cash drawn from the Treasury to pay for program expenditures is to be drawn according to intergovernmental agreements entered into by Treasury and the States

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<sup>1</sup> Social Security Amendments of 1954 (Public Law 83-761).

<sup>2</sup> Id.

<sup>3</sup> Social Security Amendments of 1972 (Public Law 92-603).

<sup>4</sup> 42 USC § 421 (2003); 20 CFR part 404, subpart Q, and part 416, subpart J (2002).

<sup>5</sup> Id.

<sup>6</sup> POMS DI 39545.001 B.4.



under the authority of the Cash Management Improvement Act (CMIA).<sup>7</sup> OMB establishes principles and standards for determining the allowability of costs for Federal awards carried out through grants, cost reimbursement contracts, and other agreements with State and local governments and Federally recognized Indian tribal governments.<sup>8</sup> At the end of each fiscal quarter, each State agency submits to SSA a *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) to account for program disbursements, obligations and unliquidated obligations.

The New Mexico DDS is a component of the New Mexico State Division of Vocational Rehabilitation (NM DVR), New Mexico State Department of Education. NM DVR maintains the accounting of the DDS' disbursements, completes and submits Form SSA-4513 to SSA, and prepares the requests to transfer cash from Treasury to the State Treasurer. The State's indirect costs for the DDS are determined based on rates negotiated and approved by the Department of Education. As of March 31, 2003, NM DVR reported obligational authority, program disbursements, and unliquidated obligations on Form SSA-4513 as follows.

REPORTING ITEM	FY 1999	FY 2000	FY 2001
Obligational Authority	\$9,058,536	\$9,229,033	\$9,633,534
Disbursements			
Personnel	4,775,790	4,725,613	5,005,813
Medical	2,372,704	2,498,292	2,269,780
Indirect Costs	890,340	881,740	918,035
Other	1,019,702	1,123,388	1,264,460
Total Disbursements	\$9,058,536	\$9,229,033	\$9,458,088
Unliquidated Obligations	0	0	0
Obligational Authority Balance	0	0	\$175,446

## SCOPE AND METHODOLOGY

We reviewed the DDS' administrative costs the State reported to SSA on Form SSA-4513 for the period October 1, 1998 through September 30, 2001 (FYs 1999 through 2001). For FYs 2000 and 2001, we tested the reliability of the State's computerized data by comparing disbursements by category and in total with amounts reported on Form SSA-4513. We then obtained sufficient evidence to evaluate administrative costs in terms of their allowability under OMB Circular A-87 and

<sup>7</sup> Cash Management Improvement Act of 1990, P. L. No. 101-453 (amending 31 U.S.C. §§ 6501, 6503).

<sup>8</sup> Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*.

appropriateness, as defined by SSA's Program Operations Manual System (POMS). For FY 1999, the State could not provide us computerized data for the DDS, and it did not have a detailed accounting of the DDS disbursements in hard copy. Accordingly, we could not select a statistical sample of transactions for review, and we did not perform audit tests to determine the allowability and allocability of the DDS' administrative costs for FY 1999.

We also:

- Reviewed applicable Federal regulations, pertinent parts of the POMS, DI 39500, *DDS Fiscal and Administrative Management*, and other instructions pertaining to administrative costs incurred by the DDS and the requests for Federal funds covered by the CMIA agreement.
- Evaluated and tested internal controls regarding accounting, financial reporting, and cash management activities.
- Interviewed DDS and NM DVR personnel and SSA's staff at the Dallas Regional Office.
- Examined the administrative expenditures (personnel, medical services, indirect and all other non-personnel costs) claimed by the DDS for the period October 1, 1999 through September 30, 2001 (see Appendix A for our sampling methodology).
- Compared the official State accounting records to the administrative costs reported by NM DVR to SSA on Form SSA-4513 for the period October 1, 1999 through September 30, 2001.
- Compared the amount of SSA funds requested and received for program operations to the allowable expenditures reported on Form SSA-4513.
- Reviewed work performed by certified public accountants as part of the State of New Mexico Department of Education Single Audit for FYs 1999 through 2001. (We did not rely on the work performed under the Single Audit because the scope of the Single Audit applicable to the DDS was limited.)

We conducted field work from August 2002 through April 2003 at the NM DVR in Santa Fe, New Mexico; the DDS in Albuquerque, New Mexico; and SSA's Regional Office in Dallas, Texas. The entities audited were the New Mexico DDS and the Office of Disability Determinations within the Office of the Deputy Commissioner for Disability and Income Security Programs. We conducted this audit in accordance with generally accepted government auditing standards.

# Results of Review

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FY 1999 records were unauditable. The State did not maintain adequate FY 1999 accounting records for us to determine whether costs claimed by the DDS were allowable and properly allocated. However, for FYs 2000 and 2001, disbursements charged to SSA by the State for the DDS were generally allowable and allocable—except for unallowable indirect costs totaling \$10,845 for FYs 2000 and 2001 and excess cash draws from Treasury totaling \$22,650. Other internal control deficiencies were that the State did not comply with Federal regulations limiting costs of consultative examination (CE) services, comply with SSA's procedures requiring that it give ongoing consideration to the adequacy of CE fees, and make timely adjustments to unliquidated obligations. Also, the ASAP system reflected funding balances totaling \$401,264 no longer needed for program operations.

## UNALLOWABLE COSTS AND CASH MANAGEMENT

We identified unallowable indirect costs for FYs 2000 and 2001; and we also found that the State's cash draws for the DDS exceeded its total disbursements for each of these 2 years. Additionally, since we were unable to audit disbursements charged to SSA for FY 1999, we could not determine whether additional unallowable costs were charged to SSA or whether the State's cash draws in FY 1999 for the DDS were appropriate.

### INDIRECT COSTS

The State's indirect cost rates applicable to the DDS under the NM DVR are negotiated with and established by the U.S. Department of Education on the State's Indirect Cost Rate Agreement. The applicable indirect cost rates were 22.87 percent from July 1, 1998 through June 30, 2001 and 22.00 percent from July 1, 2001 through June 30, 2004. The indirect cost base consisted of direct salaries and wages, including applicable fringe benefits. For FYs 2000 and 2001, the State claimed \$3,613 and \$7,232, respectively, of unallowable indirect costs because of errors made in calculating its indirect cost amounts, as follows.

- For FYs 2000 and 2001, NM DVR should have excluded \$22,650 in Medicaid cost reimbursements from its indirect cost base (see *Cash Management*). As a result, the indirect cost base was overstated.
- In FY 2001, NM DVR applied an incorrect indirect cost rate during the grant year.

<b>SUMMARY OF INDIRECT COSTS CLAIMED, ALLOWABLE, AND UNALLOWABLE FOR FYs 2000 AND 2001, AS OF MARCH 31, 2003</b>			
<b>FY</b>	<b>Claimed</b>	<b>Allowable</b>	<b>Unallowable</b>
<b>2000</b>	\$881,740	\$878,127	\$3,613
<b>2001</b>	918,035	910,803	7,232
<b>Total</b>	\$1,799,775	\$1,788,930	\$10,845

## **CASH MANAGEMENT**

As of March 31, 2003, the State's cash draws for the DDS exceeded its total disbursements by \$15,800 for FY 2000 and \$6,850 for FY 2001. This occurred because the State did not subtract Medicaid reimbursement amounts from its personnel costs when it requested funds from Treasury. The Medicaid reimbursement amounts represented reimbursement for work on Medicaid cases performed by the DDS. The provisions of an agreement between the New Mexico Human Services Department and the New Mexico

Department of Education provided for the State agency to be reimbursed \$50 for each Medicaid case reviewed by the DDS.<sup>9</sup> The amount reimbursed to the DDS was to be subtracted from personnel costs when reporting costs to SSA.

<b>SCHEDULE OF FUNDS RECEIVED, TOTAL DISBURSEMENTS, AND EXCESS DRAWS, FYs 2000 AND 2001</b>			
<b>FY</b>	<b>Funds Received</b>	<b>Total Disbursements</b>	<b>Excess Draws</b>
<b>2000</b>	\$9,244,833	\$9,229,033	\$15,800
<b>2001</b>	9,464,938	9,458,088	6,850
<b>Total</b>	\$18,709,771	\$18,687,121	\$22,650

## **INTERNAL CONTROLS**

### **ACCOUNTING PROCESS AND RECORD RETENTION**

States must adequately document accounting records.<sup>10</sup> Further, SSA's POMS guidelines require that State agencies retain financial records and supporting documentation until a Federal audit has been performed and all findings have been resolved.<sup>11</sup>

For FY 1999 the NM DVR did not maintain adequate detailed accounting records to support the DDS' administrative costs. Consequently, we could not select a statistical sample with which to audit costs for FY 1999 and verify or reconcile disbursements in

<sup>9</sup> Joint Powers Agreement Between New Mexico Human Services Department and New Mexico Department of Education, Division of Vocational Rehabilitation, Disability Determination Services – Number 95-24 (1995).

<sup>10</sup> OMB Circular A-87, Attachment A, section (C)(1)(j) (as amended August 29, 1997).

<sup>11</sup> POMS, DI 39509.005 C.1.b.

NM DVR's accounting records with amounts reported to SSA on Form SSA-4513. The State did not maintain adequate records for FY 1999 because (1) its electronic data for FY 1999 became corrupted when it attempted to convert data to a new accounting system, and (2) the State did not maintain a hard copy of detailed transaction listings to support amounts reported to SSA.

The lack of detailed accounting records to support FY 1999 disbursements represents a serious management control deficiency since we were unable to determine whether the costs for this year were appropriate. Further, for FYs 2000 and 2001—which the State did maintain adequate accounting records for our review—disbursements by category in the State accounting records equaled or exceeded amounts reported to SSA on Form SSA-4513.

## **CONSULTATIVE EXAMINATION COSTS**

For FYs 2000 and 2001, we selected statistical samples of 100 transactions for review (200 transactions total). For each year, our sample included 72 CE transactions and 28 medical evidence of record transactions. The transactions were represented by payment vouchers (PV) consisting of separately billed medical procedures bundled into one voucher. For FY 2000, the 72 CE PVs included 353 medical procedures. For FY 2001, the 72 CE PVs included 218 medical procedures.

We found the DDS did not follow Federal regulations that limit the amounts that can be paid for CE costs to the highest rate paid by Federal or other agencies in the State<sup>12</sup> for the same or similar type of service.<sup>13</sup> For FY 2000, we found CE medical procedures paid in excess of Medicare rates in 51 (71 percent) of the 72 PVs selected for review. We found the same condition in 43 (60 percent) of the 72 PVs for FY 2001.<sup>14</sup> For the 51 PVs for FY 2000, the excess payments totaled \$9,148, and, for the 43 PVs for FY 2000, the excess payments totaled \$4,789. Projected to the total population of CE PVs, the dollar impact of the excess payments (point estimate) was \$467,035 for FY 2000 and \$245,781 for FY 2001 (see Appendix A for our sampling methodology and results).

We determined that the DDS had not developed a standardized fee schedule that considered the Medicare payment limitations. Further, the DDS had not followed POMS procedures that require ongoing consideration of the adequacy of CE rates. Instead, the DDS paid for CE services based on individual agreements with specific medical providers.

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<sup>12</sup> During our audit period, no other New Mexico State agency had a fee schedule for the same or similar type of service.

<sup>13</sup> 20 CFR §§ 404.1624, 416.1024 (2002).

<sup>14</sup> We used the methodology performed by the DDS professional relation officers for FY 2002 as a basis for correlating FY 2000 and 2001 medical procedures to Medicare codes. The medical procedures for FY 2000 and 2001 were the same as those used for FY 2002.

After our audit period, the DDS revised its CE rates to reflect fees that are in accordance with Medicare rates. The rates were to be effective on October 1, 2002. We did not review the revised rates to ensure they complied with Federal regulations.

## UNLIQUIDATED OBLIGATIONS

The State did not make timely adjustments to unliquidated obligations reported to SSA on Form SSA-4513. The DDS informed us it does not review unliquidated obligations after the end of the Federal FY. POMS requires that States review the status of unliquidated obligations at least once a month to cancel those that are no longer valid.<sup>15</sup>

For FYs 1999 and 2001, unliquidated obligations were reported for 18 months after the close of the FY without being reviewed, and, for FY 2000, unliquidated obligations were reported for 15 months after the close of the FY without being reviewed. The following table shows unliquidated obligations reported at the end of the FY and corresponding amounts not used for program operations.

<b>UNLIQUIDATED OBLIGATIONS REPORTED ON FORM SSA-4513 AND AMOUNTS NOT USED FOR PROGRAM OPERATIONS FOR FYs 1999, 2000, AND 2001</b>				
	<b>FY 1999</b>	<b>FY 2000</b>	<b>FY 2001</b>	<b>Total</b>
Reported disbursements at end of FY	\$8,445,234	\$8,832,438	\$8,905,232	\$26,182,904
Reported unliquidated obligations at end of FY	<u>847,847</u>	<u>532,528</u>	<u>728,302</u>	<u>2,108,677</u>
Total obligations reported at end of FY	\$9,293,081	\$9,364,966	\$9,633,534	\$28,291,581
Final reported disbursements at end of grant period	<u>\$9,058,536</u>	<u>\$9,229,033</u>	<u>\$9,458,088</u>	<u>\$27,745,657</u>
Unliquidated obligations not used for program operations	\$234,545	\$135,933	\$175,446	\$545,924
Percentage of total unliquidated obligations at FY end not used	27.66%	25.53%	24.09%	25.89%

Thus, the State unnecessarily obligated \$234,545, \$135,933 and \$175,446 for FYs 1999, 2000, and 2001, respectively, because it did not perform monthly reviews of unliquidated obligations after the end of the Federal FY to cancel those no longer needed.

## AUTOMATED STANDARD APPLICATION FOR PAYMENTS SYSTEM

As of April 4, 2003, ASAP reflected funding balances totaling \$401,264 that were no longer needed for DDS operations. The ASAP system is used to authorize the amount of funds that can be requested as cash draws from Treasury. Amounts authorized for cash draws are based on the total obligation authority for DDS operations. When the

<sup>15</sup> POMS, DI 39506.203(A).

total obligation authority is reduced, the ASAP authority should be reduced accordingly. This reduces the risk the State could inadvertently request funds in excess of its obligational authority. Funds requested from Treasury are restricted solely for program use, and any unused money is to be returned to Treasury.<sup>16</sup> As of April 4, 2003, ASAP reflected funding balances for FYs 1999 through 2001 as follows.

<b>Cumulative Authorizations, Draws, and Balance as of April 4, 2003</b>			
<b>FY</b>	<b>Cumulative Authorizations</b>	<b>Cumulative Draws</b>	<b>Available Balances</b>
<b>1999</b>	\$9,152,921.47	\$9,058,535.47	\$94,386.00
<b>2000</b>	\$9,383,115.00	\$9,244,833.05	138,281.95
<b>2001</b>	\$9,633,534.00	\$9,464,938.00	168,596.00
<b>Total</b>			\$401,263.95

As of March 31, 2003, the State had filed all of the final Forms SSA-4513 for FYs 1999 through 2001 showing the total obligations incurred by the State for its operations. Therefore, all obligations were disbursed and liquidated, and there was no need for the excess ASAP funding authority.

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<sup>16</sup> 42 U.S.C. § 421 (f) (2003).

# Conclusions and Recommendations

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We were unable to audit disbursements charged for FY 1999 because the State did not maintain adequate accounting records for this year. However, for FYs 2000 and 2001, disbursements charged to SSA were generally allowable and allocable—except for indirect costs totaling \$10,845 for FYs 2000 and 2001 and excess cash draws totaling \$22,650. Therefore, improvements are needed in maintaining detailed accounting records, limiting costs of CE services, giving ongoing consideration to the adequacy of CE fees, and making timely adjustments to unliquidated obligations.

We recommend that SSA instruct NM DVR and the DDS to:

1. Maintain adequate accounting records to support disbursements reported on Form SSA 4513 and retain these records until a Federal audit has been performed and all findings have been resolved.
2. Refund \$3,613 for FY 2000 and \$7,232 for FY 2001 for unallowable indirect costs claimed.
3. Return \$15,800 for FY 2000 and \$6,850 for FY 2001 for cash draws that exceeded disbursements.
4. Use standardized CE fee schedules that consider the limits set by Federal regulations and monitor the adequacy of CE fees, as required by POMS.
5. Review unliquidated obligations at least once a month to cancel those no longer valid. These reviews should be conducted until all unliquidated obligations are resolved and the grant year is closed.

We also recommend that SSA:

6. Reduce the ASAP funding authority by \$94,386 for FY 1999, \$138,282 for FY 2000, and \$168,596 for FY 2001.

## AGENCY COMMENTS

SSA agreed with all of our recommendations. Specifically, SSA (1) believes records will be available under the new accounting system implemented in July 2001; (2) reduced allowable indirect costs for FY 2001 and will verify that FY 2000 unallowable costs have been returned; (3) will verify that cash draws in ASAP have been corrected to return the overdrawn amounts; (4) verified that the DDS is paying according to its new fee schedule using Medicare fees as a guide; (5) reduced the FY 2002 obligations to cancel



unliquidated obligations; and (6) issued budget approvals to reduce funding authority to the reported obligations. See Appendix C for the full text of SSA's comments.

## **NEW MEXICO STATE AGENCY COMMENTS**

The State agreed with all of the recommendations except Recommendation 1. The State also disagreed with a specific statement in the report concerning medical consultant contract costs. The State claimed it did have and does have hard copy records for Federal FY 1999 that it believed to be auditable. It added that hard copy accounting records, except for the current State FY and the preceding State FY, were archived off premises at the State of New Mexico Record Center because of storage limitations. The State also did not agree with the statement in the report that the NM DVR incorrectly included \$35,235 in medical consultant contract costs in its indirect cost base. See Appendix D for the full text of the State's comments.

## **OIG RESPONSE**

During our audit, we asked for a detailed accounting of costs by cost category to support expenses reported to SSA as DDS expenses. The State did not provide the general ledger or any detailed ledgers to support DDS expenditures for FY 1999. Further, we were told the FY 1999 computer data were lost when the NM DVR converted to a new accounting system and the NM DVR did not maintain a hard copy of its general ledger to support expense amounts reported to SSA.

In a telephone discussion with State officials on September 24, 2003, we clarified the State did not have a hard copy general ledger that would illustrate costs by category, list all transactions that comprise those categories, and be reconcilable to the amounts reported to SSA on the SSA-4513 reports. In its response, the State's reference to hard copy accounting records referred to voucher documents available for FY 1999 disbursements. While these archived documents may have been available for review, the lack of a general ledger would not allow us to readily identify the population of transactions needed for statistical sampling. Consequently, we could not audit FY 1999 costs without having the State reconstruct an accounting of FY 1999 costs from all of its voucher documents. During our conversation, the State assured us that its new accounting system would provide the level of detail needed to support costs reported to SSA and that a back-up system had been implemented to guard against the possibility that accounting data would be lost.

With respect to the statement that the NM DVR incorrectly included \$35,236 in medical consultant contract costs in its indirect cost base, the State's final SSA-4513 report to SSA incorrectly included \$35,236 in medical consultant costs in its indirect cost base. However, the State's summary schedule that supported the SSA-4513 did exclude the amount from the base. Accordingly, we agreed to delete the statement from the final report because it was not a cause for the finding and it had no impact on the amounts questioned.

# *Appendices*

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## Sampling Methodology and Results

Our sampling methodology encompassed four general areas of administrative costs: (1) personnel, (2) medical, (3) medical consultants, and (4) all other non-personnel costs. The New Mexico Division of Vocational Rehabilitation could not provide detailed accounting data to support information reported on Form SSA-4513 for Fiscal Year (FY) 1999. Without the detailed information, we could not determine the sample population for FY 1999. Thus, the following sampling methodology will only address FYs 2000 and 2001.

### PERSONNEL COSTS

We randomly sampled 30 employees from 1 randomly selected pay period for FYs 2000 and 2001. We tested the payroll records to ensure individuals were paid correctly and payroll was adequately documented.

### MEDICAL COSTS

We selected a statistical sample of 100 transactions for FY 2000 and another sample of 100 transactions for FY 2001. For each year, our sample included 72 consultative examination (CE) transactions and 28 medical evidence of record transactions. The transactions were represented by payment vouchers (PV) consisting of separately billed medical procedures bundled into one voucher. For FY 2000, the 72 CE PVs included 353 medical procedures. For FY 2001, the 72 CE PVs included 218 medical procedures.

<b>Sample Results and Projections FY 2000</b>	
Population size	3,676
Sample size	72
<b>Variable Projection</b>	
Sample Results – Dollars Paid in Excess of Medicare Rates	\$9,148
Projection point estimate	\$467,035
Projection lower limit	\$301,860
Projection upper limit	\$632,210

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

<b>Sample Results and Projections FY 2001</b>	
Population size	3,695
Sample size	72
<b>Variable Projection</b>	
Sample Results – Dollars Paid in Excess of Medicare Rates	\$4,789
Projection point estimate	\$245,781
Projection lower limit	\$157,107
Projection upper limit	\$334,454

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

### **MEDICAL CONSULTANTS**

For FYs 2000 and 2001, we randomly selected 1 monthly pay period for each medical consultant. We reviewed 17 Medical Consultants for FY 2000 and 14 for FY 2001.

### **ALL OTHER NON-PERSONNEL COSTS**

We selected 200 items (100 items for each FY). We stratified the all other non-personnel costs into eight cost categories.

1. Applicant Travel
2. Staff Travel
3. Communications
4. Building
5. Equipment
6. Contracting Out
7. Miscellaneous
8. Occupancy costs

We also selected a judgmental sample of four occupancy cost expenditures for each FY.

## Schedule of Total Costs Reported, Questioned, and Allowed

### NEW MEXICO DISABILITY DETERMINATION SERVICES

#### FISCAL YEAR (FY) 2000 AND FY 2001 COMBINED

COSTS	REPORTED	QUESTIONED	ALLOWED
Personnel	\$9,731,426	\$0	\$9,731,426
Medical	4,768,072	0	4,768,072
Indirect	1,799,775	(10,845)	1,788,930
All Other	<u>2,387,848</u>	<u>0</u>	<u>2,387,848</u>
<b>TOTAL</b>	<b>\$18,687,121</b>	<b>(\$10,845)</b>	<b>\$18,676,276</b>

#### FY 2001

COSTS	REPORTED	QUESTIONED	ALLOWED
Personnel	\$5,005,813	\$0	\$5,005,813
Medical	2,269,780	0	2,269,780
Indirect	918,035	(7,232)	910,803
All Other	<u>1,264,460</u>	<u>0</u>	<u>1,264,460</u>
<b>TOTAL</b>	<b>\$9,458,088</b>	<b>(\$7,232)</b>	<b>\$9,450,856</b>

#### FY 2000

COSTS	REPORTED	QUESTIONED	ALLOWED
Personnel	\$4,725,613	\$0	\$4,725,613
Medical	2,498,292	0	2,498,292
Indirect	881,740	(3,613)	878,127
All Other	<u>1,123,388</u>	<u>0</u>	<u>1,123,388</u>
<b>TOTAL</b>	<b>\$9,229,033</b>	<b>(\$3,613)</b>	<b>\$9,225,420</b>

## Social Security Administration Comments



## SOCIAL SECURITY

### MEMORANDUM

**Date:** August 27, 2003

**To:** Steven L. Schaeffer  
Assistant Inspector General  
for Audit

**From:** Horace L. Dickerson, Jr.  
Regional Commissioner  
Dallas

**Subject:** Dallas Reply: Administrative Costs Claimed by the New Mexico Disability Determination Services (A-06-03-13016)

Thank you for the opportunity to review and provide comments on the New Mexico Disability Determination Services (DDS) draft audit report. We appreciate the professionalism and courtesy of the OIG auditors and their efforts to keep us informed during the audit process. The following is a summary of the audit recommendations and our comments on each of them:

1. Maintain adequate accounting records to support disbursements reported on Form SSA-4513 and retain these records until a Federal audit has been performed and all findings have been resolved.

We agree with this recommendation. The problems in reconciling records were primarily due to changes in accounting systems during the period covered by the audit. The New Mexico Division of Vocational Rehabilitation (DVR) changed from VAX to AIMS and to the current MIP system which was implemented in July 2001. Records should be available under the new accounting system. Based on discussion with parent agency leadership and the DDS, we believe this issue has been resolved.

2. Refund \$3,613 for FY 2000 and \$7,232 for FY 2001 for unallowable indirect cost claimed.

We agree with this recommendation. FY 2001 has been corrected and allowable indirect costs reduced. We will verify that FY 2000 unallowable cost has also been returned. DVR should have excluded Medicaid reimbursement from the indirect cost base. As a result the base was overstated. Since DVR no longer processes Medicaid claims and receives no Medicaid reimbursement, this will no longer be an issue.

3. Return \$15,800 for FY 2000 and \$6,850 for FY 2001 for cash draws that exceed disbursements.

We agree. We will verify that cash draws in Automated Standard Application for Payments (ASAP) have been corrected to return the overdrawn amounts.

4. Use standardized CE fee schedules that consider the limits set by Federal regulations and monitor the adequacy of CE fees, as required by POMS.

We agree that during the audit period the DDS was not using a standardized fee schedule. However, beginning October 2002, the DDS established a new fee schedule using the Medicare fee schedule as a guide. In May 2003, the Regional Office conducted a CE oversight visit. Samples of CEs were reviewed and we verified that the DDS is paying in accordance with the new fee schedule.

5. Review unliquidated obligations at least once a month to cancel those no longer valid.

We agree with the recommendation. The DDS and DVR have implemented new procedures to cancel obligations and reduce the amount claimed on the quarterly report. FY 2002 obligations reported on the SSA-4513 were reduced between the 12/02 and 2/03 quarter to cancel unliquidated obligations.

6. SSA should reduce ASAP funding authority for FY 1999, FY 2000, and FY 2001.

We agree with the recommendation. Budget approvals were issued to reduce funding authority to the reported obligations. However, we understand that there was a lag between issuance of the approvals and input into ASAP by the Office of Finance. FY 1999 has now been input and we are working through DFDO to verify Office of Finance input of FY 2000 and FY 2001 into ASAP and to coordinate procedures.

If members of your staff have any questions, please have them call Carol Marshall or Fred Albright at 214-767-4468 in Management and Operations Support, Center for Disability.



## New Mexico State Agency Comments

September 11, 2003

Steven L. Schaeffer  
Assistant Inspector General for Audit  
Social Security Administration  
6401 Security Boulevard  
4-L-1 Operations Building  
Baltimore, Maryland 21235

Re: Administrative Costs Claimed by the New Mexico Disability Determination Services  
(A-06-03-13016)

Dear Mr. Schaeffer:

We appreciate this opportunity to review and respond to the Disability Determination Services (DDS) draft audit report for fiscal years 1999, 2000 and 2001. Below is a listing of the audit recommendations listed in this draft audit report and our comments on each of them:

1. Maintain adequate accounting records to support disbursements reported on Form SSA-4513 and retain these records until a Federal audit has been performed and all findings have been resolved.

This finding and related references to it at the top of page three and the top of page four of this draft report are confusing. Specifically "it (the State) did not have a detailed accounting of the DDS disbursements in hard copy (for federal fiscal year 1999)" *parenthetical information added for clarity* and "FY 1999 records were unauditabile". While we agree that computerized data for this time period became corrupted in conversion to a new accounting system and was therefore not available, we did and do have hard copy records for this period which we believe to be auditable.

Hard copy accounting records, except for the current state fiscal year and the preceding state fiscal year, are archived off premises at the State of New Mexico Record Center due to storage limitations. Archived records can be obtained but are not immediately available. We suspect that this is what caused the misunderstanding as to the availability of auditable records and we do not concur with this finding.

2. We will reduce the current year's drawdowns by \$3,613 for FY 2000 and \$7,232 for FY 2001 for the unallowable indirect costs claimed.

We agree with this recommendation. FY 2001 has been corrected and allowable indirect costs reduced. We will return the FY 2000 unallowable cost and we agree that we should have excluded Medicaid reimbursement from the indirect cost base. As a result, the base was overstated. Since we no longer process Medicaid claims and receive no Medicaid reimbursement, this will no longer be an issue.

3. Return \$15,800 for FY 2000 and \$6,850 for FY 2001 for cash draws that exceed disbursements.

We agree. We will correct/adjust the cash draws in Automated Standard Application for Payments (ASAP) for years 2000 and 2001 by reducing the current draws.

4. Use standardized consultative examination (CE) fee schedules that consider the limits set by Federal regulations and monitor the adequacy of CE fees, as required by the Program Operation Manual System (POMS).

We agree that during the audit period a standardized fee schedule was not used. However, beginning October 2002, the DDS established a new fee schedule using the Medicare fee schedule as a guide. In May 2003, the Regional Office conducted a CE oversight visit. Samples of CE's were reviewed by Regional Office staff and they verified that we are paying in accordance with the new fee schedule.

5. Review unliquidated obligations at least once a month to cancel those no longer valid.

We agree with the recommendation. We have implemented new procedures to cancel obligations and reduce the amount claimed on the quarterly report. FY 2002 obligations reported on the SSA-4513 were reduced between the 12/02 and 2/03 quarter to cancel unliquidated obligations.

6. Social Security Administration (SSA) should reduce ASAP funding authority for FY 1999, FY 2000, and FY 2001.

We agree with the recommendation. This finding needs to be addressed by SSA.

Steven L. Schaeffer  
Page 3  
September 11, 2003

We do not concur with the statement on page four of the draft audit report, the second bullet under indirect costs namely:

- In FY 2001, the New Mexico Division of Vocational Rehabilitation (NM DVR) incorrectly included \$35,236 of medical consultant contract costs in its indirect cost base.

Communications with the individuals who performed this audit indicated that this statement would be deleted prior to the final issuance of this report because it cannot be supported. We note that neither this statement nor any resulting effects are reflected in the six findings listed above.

Sincerely,

Terry Brigance  
Director

TB/DJ

Xc: Daniel Johnson, DVR Financial Manager  
Charles E. White, DDS Administrator  
Roy Burrola, DDS Financial Manager  
Sherry L. Garcia, Deputy Director, DVR Admin. Services  
Dori Lujan, Supervisor, DVR Financial Specialist Unit

## **OIG Contacts and Staff Acknowledgments**

### ***OIG Contacts***

Rona Rustigian, Director, (617) 565-1819

Paul Davila, Deputy Director, (214) 767-6317

### ***Staff Acknowledgments***

In addition to those named above:

Billy W. Mize, Auditor-in-Charge

Joshua M. Campos, 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-06-03-13016.

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

## **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.

## **Office of Investigations**

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

## **Counsel to the Inspector General**

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