
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS
CLAIMED BY THE IOWA
DISABILITY DETERMINATION
SERVICES**

June 2005

A-07-04-14087

AUDIT REPORT



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SOCIAL SECURITY

MEMORANDUM

Date: June 7, 2005

Refer To:

To: Ramona Schuenemeyer
Acting Regional Commissioner
Kansas City

From: Inspector General

Subject: Administrative Costs Claimed by the Iowa Disability Determination Services
(A-07-04-14087)

OBJECTIVE

The objectives of our audit were to evaluate the Iowa Disability Determination Services' (IA-DDS) internal controls over the accounting and reporting of administrative costs, determine whether costs claimed were allowable and funds were properly drawn, and assess limited areas of the general security controls environment. Our audit included the administrative costs claimed by the IA-DDS during Fiscal Years (FY) 2001 through 2003.

BACKGROUND

Disability determinations under both Disability Insurance and Supplemental Security Income are performed by Disability Determination Services (DDS) in each State or other responsible jurisdictions. Such determinations are required to be performed in accordance with Federal law and underlying regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations.²

The Social Security Administration (SSA) reimburses the DDS for 100 percent of allowable program expenditures up to the limit of its funding authority. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments System (ASAP) to pay for program expenditures. Funds drawn down must comply with Federal regulations and intergovernmental agreements entered into by Treasury and States under the Cash

¹ 42 U.S.C. § 421; 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

² 20 C.F.R. §§ 416.1013(a) and 416.1014(a).

Management Improvement Act of 1990. At the end of each quarter of the FY each DDS submits a State Agency Report of Obligations for SSA Disability Programs (SSA-4513) to account for program disbursements and unliquidated obligations.

The Iowa Division of Vocational Rehabilitation Services (IA-DVRS) within the Iowa Department of Education is the IA-DDS' parent agency. The IA-DDS is located in Des Moines, Iowa. See Appendix B for our scope and methodology.

RESULTS OF REVIEW

Generally, the IA-DDS had effective internal controls over the accounting and reporting of administrative costs and the costs it claimed during our audit were allowable. However, improvements were needed in the areas of cash management and medical services obligations.

CASH MANAGEMENT

Funds to cover IA-DDS expenditures are drawn from the ASAP system. For each FY, the IA-DDS is assigned an account identification number(s) in ASAP.³ Cash draws made from the account identification number(s) are to reimburse IA-DDS for expenditures incurred during the same period as the account identification number's FY reporting period.⁴

We reviewed the IA-DDS' six ASAP accounts related to our audit period. We found that the total cash draws reported for each of the ASAP accounts were not equal to the total disbursements reported by the IA-DDS on the corresponding SSA-4513s, as illustrated in the table below.

Variance of ASAP Cash Draws to SSA-4513 Disbursements				
FY	ASAP Account	ASAP Cash Draws	SSA-4513 Disbursements	Over (Under) Cash Draw
2001	0104IADI00	\$12,879,568	\$12,753,536	\$126,032
2001	0104IADI02	\$6,468	\$1,767	\$4,700
2002	0204IADI00	\$14,589,005	\$14,702,477	(\$113,471)
2002	0204IADI02	\$5,871	\$4,293	\$1,578
2003	0304IADI00	\$14,596,462	\$14,703,862	(\$107,400)
2003	0304IADI02	\$8,928	\$6,024	\$2,904
Total Variance		\$42,086,302	\$42,171,959	(\$85,657)

³ A DDS may have more than one ASAP account identification number each FY. For example, DDS may have an ASAP account dedicated to information technology costs and another account dedicated to all other administrative costs.

⁴ 31 U.S.C. § 1502.

For our 3-year audit period, it appeared that the IA-DDS drew \$85,657 less than its actual disbursements. However, as shown in the following table, the IA-DDS routinely transferred funds between ASAP accounts. The transfers between ASAP accounts also occurred in FYs outside our audit period. Therefore, we could not conclude that the IA-DDS' cash draws were less than its disbursements during our 3-year audit period, since the ASAP accounts contained transfers from ASAP accounts outside of our audit period and transfers to ASAP accounts to pay expenditures for FYs outside of our audit period.

Given the IA-DDS' routine transfers between ASAP accounts, it would have been necessary to reconstruct cash draws from FY 1997 to the present date to determine if cash draws were appropriate.⁵ We did not expand the scope of our review of cash draws since we found no indication that the IA-DDS used the Federal funds for disbursements other than those allowable for reimbursement by SSA.

Funds Transferred Between ASAP Accounts					
FY	ASAP Account Number	Cash Transferred In to the Account	Cash Transferred Out of the Account	Net Cash Transferred In/Out Account	Number of Transfers In/Out
2001	0104IADI00	\$184,627	(\$58,625)	\$126,002	19
2001	0104IADI02	\$5,876	(\$1,176)	\$4,700	11
2002	0204IADI00	\$72,794	(\$186,266)	(\$113,471)	14
2002	0204IADI02	\$3,298	(\$1,720)	\$1,578	4
2003	0304IADI00	\$43,024	(\$150,423)	(\$107,400)	10
2003	0304IADI02	\$3,002	(\$1,002)	\$2,000	3

The transfer of funds between accounts allows for an inappropriate use of one FYs appropriation to be used to pay the expenses of another FY. Federal statute states, "The balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability or to complete contracts properly made within that period of availability and obligated consistent with section 1501 of this title."⁶

The ASAP system has a feature that allows recipients of Federal funds to transfer cash between accounts. SSA has the option to have this feature disabled. However, the Kansas City Regional Office prefers that the feature remain enabled to allow DDSs to

⁵ The IA-DDS began using the ASAP system for Federal cash draws on October 1, 1996 (FY 1997).

⁶ 31 U.S.C. § 1502(a).

transfer funds between ASAP accounts as needed.⁷ If the feature remains enabled, the Regional Office needs to improve its oversight of DDS cash management activities. For example, the Regional Office currently does not know when a DDS transfers cash between ASAP accounts because it does not require DDSs to obtain prior approval to transfer funds. Furthermore, the Regional Office has not obtained access to the ASAP system so it can properly monitor DDS cash management activities.⁸ The lack of proper oversight of DDS cash management activities places Federal funds at risk of mismanagement.

MEDICAL SERVICES OBLIGATIONS

Our review of 150 consultative examination (CE) and medical evidence of record (MER) payments identified 12 payments that were claimed for reimbursement in the wrong FY.⁹ Although the CE and MER payments were claimed in the wrong FY, they were otherwise allowable for reimbursement by SSA. The 12 payments were claimed for reimbursement in the wrong FY because the IA-DDS followed State policy to obligate expenditures and the policy conflicted with SSA instructions. The State's policy requires that CE and MER be obligated upon receipt of the service. However, SSA instructions require that obligations for CE and MER be recorded on the date the service is authorized for purchase.¹⁰

The State policy resulted in CE and MER ordered at or near the end of a FY to be claimed for reimbursement in the subsequent FY because the IA-DDS obligates the expenditures after the service is received. Given this State policy, CE and MER payments authorized by the IA-DDS during August and September of a FY are most likely claimed for reimbursement by the IA-DDS in the subsequent FY. For example,

- The IA-DDS authorized one of the six CEs we reviewed to be purchased on September 7, 2000 (FY 2000). The CE appointment occurred on October 17, 2000 (FY 2001). The IA-DDS claimed reimbursement for the CE in FY 2001. According to SSA instructions, the reimbursement should have been claimed in FY 2000, the FY the service was authorized.

⁷ In comments to our draft report, the Acting Regional Commissioner stated that SSA's Central Office prefers that the ASAP system feature that allows DDSs to transfer funds between accounts remain enabled (see Appendix C).

⁸ In comments to our draft report, the Acting Regional Commissioner stated that the region is exploring the possibility of gaining access to the ASAP system (see Appendix C).

⁹ The 12 payments totaled \$1,281 and consisted of 6 CE payments totaling \$1,071 and 6 MER payments totaling \$210.

¹⁰ POMS DI 39506.201C.

Improperly shifting costs between FYs prevents SSA from accurately monitoring the status of States' expenditures and unexpended appropriations. The IA-DDS should follow SSA's instructions and obligate CE and MER at the time the service is authorized.

CONCLUSION AND RECOMMENDATIONS

Generally, the IA-DDS had effective internal controls over the accounting and reporting of administrative costs and the costs it claimed during our audit period were allowable. However, improvements were needed in the areas of cash management and medical services obligations.

Accordingly, we recommend that the SSA Regional Commissioner:

1. Require DDSs in the Kansas City Region to obtain approval to transfer funds between ASAP accounts.
2. Establish an oversight process to properly monitor DDS cash management activities.
3. Instruct the IA-DDS to obligate MER and CE expenditures at the time the service is authorized.

Agency Comments

In commenting on our draft report, SSA and IA-DVRS agreed with our recommendations. See Appendix C and D respectively, for the full text of SSA's and IA-DVRS' comments.



Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Agency Comments

[APPENDIX D](#) – State Agency Comments

[APPENDIX E](#) – OIG Contacts and Staff Acknowledgments

Acronyms

ASAP	Automated Standard Application for Payments System
CE	Consultative Examination
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
FY	Fiscal Year
IA-DDS	Iowa Disability Determination Services
IA-DVRS	Iowa Division of Vocational Rehabilitation Services
MER	Medical Evidence of Record
POMS	Program Operations Manual System
SSA	Social Security Administration
SSA-4513	State Agency Report of Obligations for SSA Disability Programs
Treasury	Department of the Treasury
U.S.C.	United States Code

Scope and Methodology

SCOPE

To achieve our objective, we:

- Reviewed applicable Federal laws and regulations, pertinent parts of Social Security Administration's (SSA) Program Operations Manual System and other criteria relevant to administrative costs claimed by the Iowa Disability Determination Services (IA-DDS) and the drawdown of SSA program grant funds.
- Interviewed staff and officials at IA-DDS, Iowa Division of Vocational Rehabilitation Services (IA-DVRS), and the SSA Kansas City Regional Office.
- Reviewed State policies and procedures related to personnel, medical services, and all other nonpersonnel costs.
- Evaluated and tested internal controls regarding accounting, financial reporting, and cash management activities.
- Reconciled State accounting records to the administrative costs reported by the IA-DDS on the State Agency Report of Obligations for SSA Disability Programs (SSA-4513) for Fiscal Years (FY) 2001 through 2003.
- Examined and reviewed the administrative costs IA-DDS reported on its SSA-4513s for FYs 2001 through 2003.
- Examined certain administrative expenditures (personnel, medical services, and all other nonpersonnel costs) incurred and claimed by IA-DDS for FYs 2001 through 2003 on the SSA-4513. We used statistical sampling to select expenditures to test for support of the medical service and all other nonpersonnel costs.
- Examined the indirect costs claimed by the IA-DDS for FYs 2001 through 2003.
- Compared the amount of SSA funds drawn for support of program operations to the expenditures reported on the SSA-4513.
- Reviewed IA-DDS general security controls related to physical security and continuity of operations.

We determined that the data provided by IA-DVRS and used in our audit was sufficiently reliable to achieve our audit objectives. We assessed the reliability of the data by reconciling it with the costs claimed on the SSA-4513. We also conducted detailed audit testing on selected data elements in the electronic data files.

We performed work at the IA-DDS and IA-DVRS in Des Moines, Iowa and the Office of Audit in Kansas City, Missouri. We conducted fieldwork from July 2004 through December 2004. The audit was conducted in accordance with generally accepted government auditing standards.

METHODOLOGY

SAMPLING METHODOLOGY

We reviewed the \$42,159,875 administrative costs IA-DDS reported on its SSA-4513 for FYs 2001 through 2003. The sampling methodology encompassed the four general areas of costs reported on the SSA-4513 (1) personnel, (2) medical, (3) indirect, and (4) all other nonpersonnel costs. We obtained a data extract of all costs and the associated invoices for FYs 2001 through 2003 for use in statistical sampling. This was obtained from the accounting systems used in the preparation of the SSA-4513.

Personnel Costs

We randomly selected a 2-week pay period in the most recent year under review. We then selected a random sample of employees for review and testing of the payroll records.

For medical consultant costs, we selected two pay periods from the most recent year under review. We selected two pay periods because during our audit period the medical consultants were converted from contractual employees to IA-DDS employees; and, therefore, were paid by two different methods. The first pay period selected was prior to the medical consultants being converted to IA-DDS employees. The second pay period selected was after the medical consultants were converted to IA-DDS employees. For each pay period, we randomly selected the same medical consultants and verified that the medical consultants were paid correctly before and after the conversion.

Medical Costs

We sampled 150 items (50 items from each FY) using a stratified random sample of medical cost based on the proportion of medical evidence of record and consultative examination costs to the total medical costs claimed.

Indirect Costs

IA-DDS indirect costs are computed by applying a federally approved rate to a cost base.¹ This methodology was approved by the Department of Education, which is the Federal agency designated to negotiate and approve the indirect cost rate for the IA-DVRS. During FYs 2001 through 2003, IA-DDS claimed \$2,628,808 for indirect costs. We reviewed the FY 2001, 2002, and 2003 indirect cost calculations to ensure the correct rate was applied.

All Other Nonpersonnel Costs

We sampled 150 items (50 expenditures from each FY) using a stratified random sample. The random sample was based on the proportion of costs in each of the cost categories to the total costs claimed.

¹ The cost base represents the total of direct costs less terminal leave, capitalized equipment, medical costs, alterations, renovations, flow through funds and that portion of each sub award in excess of \$25,000 per year.

Agency Comments

From: ||KC ORC
Sent: Wednesday, May 25, 2005 1:19 PM
To: O'Carroll, Pat
Cc: Schaeffer, Steve; Scruggs, Gail; Scruggs, Gail; Skurnik, Candace; ^DCO Audit; Austin, Stacy; Marten, Lynn; Shivers, Janet; Kerr-Davis, Linda; Douthit, Ron; ||KC ORC; ||KC ARC MOS
Subject: (A-07-04-14087)(Audit #22004034)(ICN #34055-24-1211)--Kansas City Region Response

MEMORANDUM

Date: May 25, 2005
To: Inspector General
From: Acting Regional Commissioner
Kansas City
Subject: Administrative Costs Claimed by the Iowa Disability Determination Services
(A-07-04-14087)

We apologize for the delay in our response. We appreciate the opportunity to provide input on the draft report of the recent administrative audit conducted at the Iowa DDS. Overall we do agree with the results of the review and the three recommendations outlined in the draft. The DDS does maintain effective internal controls over the accounting and reporting of the administrative costs and costs claimed. We would offer the comments below on the review findings and recommendations for your consideration in the final report.

Cash Management

This section contains several statements we would like to clarify. The draft report states: "The ASAP system has a feature that allows recipients of Federal funds to transfer cash between accounts. SSA has the option to have this feature disabled. However, the Kansas City Regional Office prefers that the feature remain enabled to allow DDSs to transfer funds between ASAP accounts as needed. If the feature remains enabled, the Regional Office needs to improve its oversight of DDS cash management activities.....Furthermore, the Regional Office has not obtained access to the ASAP system so it can properly monitor DDS cash management activities." The Center for Disability Programs in the Regional Office consulted with the Resource Management Branch at Central Office for their input on disabling the ASAP feature that allows for transfer between accounts. It was their recommendation that the feature remain intact in the State's ASAP system. In this same paragraph OIG states that the Regional Office has not obtained access to ASAP. Historically, Central Office has maintained monitoring

responsibilities for ASAP withdrawals. In light of this audit finding, we are exploring the possibility of the region's fiscal analyst gaining access to ASAP.

Recommendations

Recommendation 1

The Kansas City Regional Office agrees to instruct the State agency to request approval prior to transferring funds between accounts. However, the State has already revised their procedures in November 2004 to using the negative draw down method versus the transfer of funds. We expect there will be little use of the transfer of funds. The Regional Office will prepare a procedure revision for the State agency to contact the fiscal analyst prior to use of the transfer of funds method. In addition, the Regional Office will request the State agency provide a copy of any written procedure changes noting the revision to using the negative draw down method.

Recommendation 2

The Regional Office will request Central Office review any transfer of funds to ensure they are processed correctly in ASAP.

Recommendation 3

We agree with this recommendation. The State agency has agreed to make revisions to their internal procedures to ensure the MER and CE authorizations are paid from the same FY in which they were obligated.

Thank you for the opportunity to provide input on the draft report. If you have any questions regarding our comments please contact our Regional Office DDS fiscal analyst, Linda Kerr-Davis. She can be reached at 816-936-5691.

Ramona

State Agency Comments



Iowa
**Vocational
Rehabilitation**
Services

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May 23, 2005

Richard Bolling Federal Building
Office of Inspector General
ATTN: Ronald Bussell
601 E. 12th Street
Kansas City, MO 64106

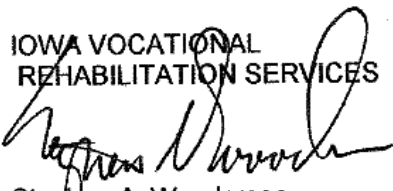
Dear Mr. Bussell:

Enclosed you will find the Iowa Vocational Rehabilitation Services response to the Office of Inspector General audit of the Iowa DDS program.

If you have any questions, please feel free to contact Matthew Coulter at 515/281-4093 or e-mail at matthew.coulter@iowa.gov. Thank you.

Sincerely,

IOWA VOCATIONAL
REHABILITATION SERVICES



Stephen A. Wooderson
Administrator

SAW/jm

Enclosure

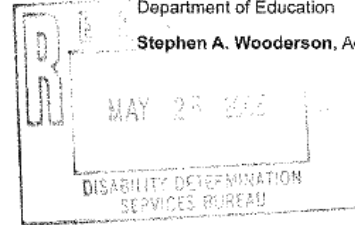
Cc: ~~Tom Floren~~
Keith Hyland
Janice Jensen
Joe McGarr
Matthew Coulter

Thomas J. Vilsack, Governor

Sally J. Pederson, Lt. Governor

Judy A. Jeffrey, Director,
Department of Education

Stephen A. Wooderson, Administrator





Iowa
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Thomas J. Vilsack, Governor
Sally J. Pederson, Lt. Governor
Judy A. Jeffrey, Director,
Department of Education
Stephen A. Wooderson, Administrator

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Iowa Vocational Rehabilitation Services
SSA, Office of Inspector General Audit of FY 2001 - 2003

IVRS response to audit comments

Cash Management

IVRS Response:

IVRS does not dispute the findings of OIG on the issue of ASAP draw downs from incorrect accounts and the subsequent transfer of these funds to correct the mistakes. IVRS consulted with the SSA Regional Office on this issue and has instituted a process to correct any future mistakes of this kind on the ASAP system in a manner that will show the ASAP Cash Draws and the SSA-4513 Disbursements are in balance.

If funds are requested from an incorrect fiscal year's account, a Summary Payment with a Negative Draw Adjustment will be entered in the ASAP System. Under this method when requesting cash for the day, IVRS can also "return cash" that was incorrectly drawn by using a negative number in the account number for the fiscal year which was effected. This method will reduce the amount of cash drawn in one fiscal year and increase the amount drawn in another year. A related transaction will be processed in the State Accounting System (I/3). This transaction deposits funds in the State Treasury account making the correction within the state accounting system for the incorrect draw and adjusts the state accounting records to reflect the correct amounts drawn from each fiscal year. IVRS financial staff will notify the SSA Regional Office via e-mail the same business day whenever an ASAP transfer will occur to correct a draw down error.

Further, IVRS management has reviewed federal funds draw down procedures with responsible financial staff with the goal of accurate federal draw downs and to minimize these transfers to the fullest extent possible.

Medical Services Obligations

IVRS Response:

IVRS does not dispute the findings of OIG regarding payment of CE and MER obligations from a fiscal period in conflict with SSA instructions. As stated by OIG, IVRS has been following State of Iowa procedure in this regard. IVRS agrees to change its procedures to follow SSA instructions beginning with the transition from FY05 to FY06. As an example, a CE authorized on September 20, 2005 where the actual examination occurs on October 15, 2005 and DDSB receives the report on October 30, 2005 will be obligated and paid from FY05 funds.

5/23/05

SSA OIG Audit Response 4272005

Administrative Offices * 510 East 12th Street * Des Moines, Iowa 50319 * 515.281.4311 V/TTY * www.ivrs.iowa.gov

Iowa Vocational Rehabilitation Services is a division of the Iowa Department of Education

OIG Contacts and Staff Acknowledgments

OIG Contacts

Mark Bailey, Director, Kansas City Audit Division (816) 936-5591

Ron Bussell, Audit Manager (816) 936-5577

Acknowledgments

In addition to those named above:

Kenneth Bennett, Information Technology Specialist

Douglas Kelly, Auditor

Cheryl Robinson, Writer-Editor

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