



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

Audit Report

Costs Claimed by the Kentucky Disability Determination Services

A-55-20-00006 | September 2021



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

September 23, 2021

Ms. Staci Cain
Administrator
Kentucky Disability Determinations Services
102 Athletic Drive
Frankfort, KY 40601

Dear Ms. Cain:

The Social Security Administration (SSA) contracted with Grant Thornton LLP (Grant Thornton), an independent certified public accounting firm, to conduct an administrative cost audit of the Kentucky Disability Determinations Services for the periods October 1, 2016 through September 30, 2017 and October 1, 2017 through September 30, 2018. Grant Thornton's performance audit objectives were to:

- evaluate internal controls over the accounting and reporting of administrative costs;
- determine whether the administrative costs claimed on the March 31, 2020 *State Agency Report of Obligations for Social Security Administration Disability Programs* (Form SSA-4513) were allowable and properly allocated;
- reconcile funds drawn down with claimed costs; and
- assess the general security controls environment.

The enclosed final report presents the results of Grant Thornton's audit. Grant Thornton is responsible for the report and the opinions and conclusions expressed therein. The Office of the Inspector General (OIG) was responsible for technical and administrative oversight of Grant Thornton's performance under the contract terms. We monitored Grant Thornton's work by

- evaluating the independence, objectivity, and qualifications of the auditors and specialists;
- monitoring the audit's progress at key points;
- examining Grant Thornton's documentation related to planning the audit, assessing internal control, and substantive testing;
- reviewing and coordinating the issuance of Grant Thornton's audit report; and
- performing other procedures we deemed necessary.

Our monitoring disclosed no instances where Grant Thornton did not comply, in all material respects, with the standards for performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Page 2 – Staci Cain

The Kentucky Disability Determinations Services should provide SSA a corrective action plan within 60 days that addresses each recommendation. If you wish to discuss the final report, please contact me or have your staff contact Vicki Vetter, Director of the Financial Audit Division.

Sincerely,

A handwritten signature in dark ink that reads "Michelle L. Anderson". The signature is written in a cursive, flowing style.

Michelle L. Anderson
Assistant Inspector General for Audit

Enclosure

cc:

Grace M. Kim, Deputy Commissioner, Operations

Eric Friedlander, Secretary, Cabinet for Health and Family Services

Steve Veno, Commissioner of the Kentucky Department of Income Support

Costs Claimed by the Kentucky Disability Determination Services

A-55-20-00006



September 2021

Office of Audit Report Summary

Objective

To (1) evaluate internal controls over the accounting and reporting of administrative costs by the Kentucky Disability Determination Services (KY-DDS) for Fiscal Years (FY) 2017 and 2018; (2) determine whether the administrative costs claimed on the most recently submitted Form SSA-4513 were allowable and properly allocated; (3) reconcile funds drawn down with claimed costs; and (4) assess the general security controls environment.

Background

KY-DDS performs disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs in accordance with Federal regulations. KY-DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses KY-DDS for 100 percent of allowable expenditures, including direct and indirect costs. The KY-DDS' parent agency is the Cabinet for Health and Family Services (CHFS).

SSA contracted with Grant Thornton LLP (Grant Thornton) to conduct this audit. The Office of the Inspector General was responsible for technical and administrative oversight of Grant Thornton's performance under the contract terms.

Findings

Grant Thornton found the KY-DDS' controls over the accounting and reporting of administrative costs for FYs 2017 and 2018 as well as its general security controls could be strengthened to ensure compliance with applicable criteria.

As of March 31, 2020, Grant Thornton noted that projected administrative costs of \$427,021 and \$324,800 as claimed on the Forms SSA-4513 for FYs 2017 and 2018, respectively did not meet criteria for allowability.

Recommendations

Grant Thornton outlined 7 recommendations for the KY-DDS to enhance its internal control environment for control gaps and other findings during its audit. Grant Thornton outlined recommendations in a separate memorandum for general security controls.

The full text of the KY-DDS' response is included in Appendix C. SSA was provided the report for comment and, although not required, did not provide comments on the recommendations.

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ABBREVIATIONS

Act	<i>Social Security Act</i>
CE	Consultative Examinations
C.F.R.	Code of Federal Regulations
CHFS	Cabinet for Health and Family Services
CPT	Current Procedural Terminology
DDS	Disability Determination Services
DI	Disability Insurance Program
FY	Fiscal Year
Form SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
Form SSA-4514	Time Report of Personnel Services for Disability Determination Services
KY-DDS	Kentucky Disability Determination Services
MC	Medical Consultant
PACAP	Public Assistance Cost Allocation Plan
PC	Psychological Consultant
POMS	Program Operations Manual System
OIG	Office of the Inspector General
SAM	System of Award Management
SSA	Social Security Administration
SSI	Supplemental Security Income

MEMORANDUM

Date: September 23, 2021

To: Gail S. Ennis
Inspector General

From: Grant Thornton LLP

Subject: **GRANT THORNTON AUDIT REPORT – COSTS CLAIMED BY THE KENTUCKY DISABILITY DETERMINATION SERVICES**

We have conducted a performance audit (also referred to as an “audit” herein) on the Kentucky Disability Determination Services’ (KY-DDS) administrative costs incurred in connection with conducting disability determinations in support of the Social Security Administration (SSA) (the “program”) by (1) determining whether the administrative costs claimed for the years ended September 30, 2017 and 2018 on the *State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513)*, adjusted through March 31, 2020, were allowed and properly allocated; (2) reconciling funds drawn down with claimed costs on those forms; and (3) evaluating the internal controls over the accounting and reporting of administrative costs for the same period. We also (4) assessed the general security controls environment by conducting inquiries and inspections for the period from October 1, 2019 through September 30, 2020 as well as live observations through March 31, 2021 (as further described in Appendix A). (Items 1-4 represent the “audit objectives”).

The applicable criteria are set forth in the Code of Federal Regulations (C.F.R.) Title 2 – *Grants and Agreements*, Subchapter A, Chapter II, Part 225 *Cost Principles for State, Local, and Indian Tribal Governments* (2 C.F.R., part 225) and the Government Accountability Office’s *Federal Information System Controls Audit Manual*, in addition to applicable criteria that are identified in the body of the accompanying report. It is the responsibility of the KY-DDS’ management to conduct the program in accordance with the criteria and the program objectives. Our responsibility is to report our findings and conclusions related to the audit objectives.

We conducted this performance audit in accordance with the standards for performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. A performance audit involves performing procedures to obtain evidence about the KY-DDS’ program in order to audit administrative costs and the related internal controls, as well as general security controls, as outlined in the audit objectives in the opening paragraph above. The nature, timing, and extent of the procedures selected depend on our judgment. A performance audit also includes consideration of internal controls related to the program and audit objectives as a basis for designing procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the KY-DDS’ internal control. Accordingly, we express no such conclusion related to the KY-DDS’ internal controls. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our findings and conclusions based on our audit objectives.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of this performance audit were (1) to determine whether the administrative costs claimed for the years ended September 30, 2017 and 2018 on the Form SSA-4513, adjusted through March 31, 2020, were allowed and properly allocated; (2) reconciling funds drawn down with claimed costs on those forms; and (3) evaluating the internal controls over the accounting and reporting of administrative costs for the same period. We also (4) assessed the general security controls environment by conducting inquiries and inspections for the period from October 1, 2019 through September 30, 2020 as well as live walkthroughs through March 31, 2021 (as further described in Appendix A).

To accomplish these objectives, we gained an understanding of the processes and information systems KY-DDS used to account for the administrative costs it incurred in connection with conducting disability determinations in support of SSA. We interviewed appropriate KY-DDS staff as well as SSA regional office representatives; inspected available written KY-DDS procedures, applicable Federal regulations, the *Social Security Act* (Act), SSA policies and procedures pertaining to the KY-DDS and prior work performed by SSA or its Office of the Inspector General over DDS administrative costs. In addition, we performed live walkthroughs of business processes and information systems, obtained transactional listings, ascertained the completeness of the listings, and compared a sample of transactions to supporting documentation to corroborate administrative costs claimed and funds drawn down. Our tests of the general security system environment comprised tests over physical and system security controls consisting of live walkthroughs, inspections, and inquiries. In some instances, information we requested was not made available to us; therefore, our approach was limited in certain aspects as further described below.

To meet the above objectives, we defined our scope based on areas of audit significance. For financial data, we determined significance based on KY-DDS' total claimed costs presented on the Form SSA-4513 for each applicable fiscal year (FY). In FYs 2017 and 2018 as of March 31, 2020, the KY-DDS claimed administrative costs totaling approximately \$92 million (\$46,595,051 and \$45,597,636, respectively). Refer to Appendix B for the Form SSA-4513 for each FY. We used a variety of statistical and non-statistical sampling techniques to test the Form SSA-4513 line items. Where statistical sampling was used, we projected any errors noted to the entire population.

For information security testing, our scope was limited to the KY-DDS' general security environment and its disability case processing system.

BACKGROUND

The Disability Insurance (DI)¹ program, established under Title II of the Act, provides benefits to wage earners and their families in the event the wage earner becomes disabled. The

¹ The DI program provides benefits to wage earners and their families who meet certain criteria if the wage earner becomes disabled or dies. See 20 C.F.R. sections 404.315, 404.330, and 404.350 (ecfr.gov).

Supplemental Security Income (SSI)² program, established under Title XVI of the Act, provides benefits to financially needy individuals who are aged, blind, and/or disabled.

SSA is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by disability determination services (DDS) and Federal disability units in each State and U.S. territory as well as the District of Columbia in accordance with Federal regulations. In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, X-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the KY-DDS for 100 percent of allowable expenditures incurred in connection with conducting disability determinations. Allowable expenditures include both direct and indirect costs. Direct costs can be identified with a particular cost objective. Indirect costs arise from activities that benefit multiple programs but are not readily assignable to these programs without effort disproportionate to the results achieved. The KY-DDS claims reimbursement for both direct and indirect costs claimed from SSA in relation to its disability programs.

The KY-DDS uses various customized systems to process disability claims and other non-SSA workloads and has responsibility for security measures for its sites and systems. SSA requires that the KY-DDS comply with its Program Operations Manual System (POMS).³

The KY-DDS' parent agency is the Cabinet for Health and Family Services (CHFS), which provides the KY-DDS with financial, accounting, and personnel services and performs tasks such as approval of all DDS-related payments, payroll processing, and indirect cost allocations.

RESULTS

Our audit procedures were performed on items determined to be in-scope as described above and where relevant information was made available to us.

Objective 1: Evaluate internal control over the accounting and reporting of administrative costs

Our testing disclosed instances where the KY-DDS' internal controls over the accounting and reporting of administrative costs for FYs 2017 and 2018 could have been strengthened.

Verification of Medical Qualifications

For FYs 2017 and 2018, the KY-DDS did not provide evidence of System for Award Management (SAM) checks and State Board credential checks for any medical consultant and

² The SSI program provides a minimum level of income for people who are age 65 or older or who are blind or disabled and who do not have sufficient income and resources to maintain a standard of living at the established Federal minimum income level. See 20 C.F.R. section 416.110 (ecfr.gov).

³ The POMS is a primary source of information used by Social Security employees to process claims for Social Security benefits (<https://secure.ssa.gov/apps10/>).

consultative examination provider sample selections as required by POMS⁴. Note that this condition did not result in any unallowable charges being represented within the Form SSA-4513.

The lack of documentation over the review of required medical consultant and CE providers' credentials impacts management's ability to monitor its medical consultants and ensure compliance with POMS criteria for medical consultants who provide services for the KY-DDS.

Medical Consultant (MC) Payments

For FY 2018, the supporting documentation provided for 1 of 24 Medical Consultant sample selections did not agree to the Medical Consultant Costs recorded in the total used for the SSA-Form 4513. The KY-DDS did not resolve this difference and stated that personnel who were previously responsible for these transactions were no longer employed by the KY- DDS and remaining staff are unable to locate the necessary documentation.

Additionally, the training time recorded on the pay voucher and invoice from the MC did not agree to the sign-in/sign-out training sheet provided, which resulted in payments to the MC that did not agree to supported amounts. Note that this condition did not result in any unallowable charges being represented within the Form SSA-4513.

The KY-DDS' inability to support its recorded transactions increases the risk that amounts requested for reimbursement are unallowable under the terms of 2 C.F.R. part 225. Per 2 C.F.R. part 225, Appendix A Section C, to be allowable under Federal awards, costs must be adequately documented.

Occupancy Cost Allocation

For FYs 2017 and 2018, the KY-DDS incorrectly allocated occupancy costs between the Medical Review Team (MRT) and the DDS for the Frankfort office location. The Memorandum of Understanding (MOU) indicates allocated costs should be charged based on the percentage of square footage that MRT (1.23%) and the KY-DDS (98.77%) occupy, respectively, at the KY-DDS office in Frankfort, KY. The KY-DDS did not update the allocation percentage in their accounting system due to oversight, and the occupancy costs continue to be allocated to the MRT and DDS at the historical rate of 2% and 98%, respectively.

Per 2 C.F.R. part 225, Appendix A Section C, a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

The Occupancy Costs claimed on the Form SSA-4513 did not agree to recalculated and supported balances. Although these conditions did not result in any unallowable charges being represented within the Form SSA-4513, similar errors in different scenarios could lead to

⁴ Per POMS DI 39569.300, DDS must conduct license checks for existing medical consultant (MC), psychological consultant (PC), or consultative examination (CE) provider on a rolling basis, including conduct periodic licensure reviews prior to renewal dates to ensure that licenses are active and review the SAM for each MC/PC/CE at least annually.

erroneous charges. As such, these conditions result in an increased risk of unsupported or inappropriate charges being represented within the Form SSA-4513.

Objective 2: Determine whether the administrative costs claimed on the most recently submitted Form SSA-4513 were allowable and properly allocated

Based on our procedures to determine whether administrative costs were allowable and properly allocated, we determined that administrative costs as shown in the table below did not meet the criteria for allowability per 2 C.F.R. part 225.

Unsupported Indirect Costs

For FYs 2017 and 2018, the KY-DDS did not provide documentation to support the annual Enterprise Assessment costs that were allocated to the DDS, which impacts 3 of 18 samples and 2 of 18 samples selected for testing for FY2017 and FY2018, respectively. The Enterprise Assessment costs were charged to the parent agency, CHFS, and allocated to the DDS every year. Additionally, KY-DDS procedures to review indirect costs charged were not sufficient to identify these unsupported charges. Through inquiry with KY-DDS management, these charges have been occurring since at least FY 2010, and possibly earlier.

The KY-DDS is not deemed to be in compliance with 2 C.F.R. part 225 for FYs 2017 and 2018 which requires charges to be adequately documented in order to be allowable. As a result of insufficient documentation for 3 samples for FY 2017 and 2 samples for FY 2018, Grant Thornton noted an actual error total of \$36,958 and \$30,889, and a projected error total of \$410,679 and \$264,906 for FY 2017 and FY 2018, respectively, as noted in Table 1 ("Indirect Costs" line item).

Current Procedural Terminology Codes and Fee Increase

For FYs 2017 and 2018, the CE rate charged was higher than the CE rate shown on the DDS fee schedule for 3 of 50 sample selections and 4 of 50 sample selections, respectively. The KY-DDS was able to provide evidence of internal review of this Current Procedural Terminology (CPT) code rate increase but failed to document this rate increase on the fee schedule or provide alternative evidence of SSA approval.

Per POMS⁵ DI 39545.600, Section B, DDS responsibilities include: maintain documentation to support the rates of payment it uses, provide documentation and obtain RO approval when fee schedules increase. Additionally, per POMS⁶ DI 39545.625, Section A, each State is required to develop a fee schedule to be used by the DDS for payment of consultative examinations (CEs).

⁵ SSA, POMS, DI 39545.600 Fee Schedules

⁶ SSA, POMS, DI 39545.625 Developing Fee Schedules

Payments to the CE providers were inconsistent with the fee schedule and exceeded approved rates resulting in a monetary error total of \$20 and \$30, and a projected error total of \$16,342 and \$15,774 for FY17 and FY18, respectively, as noted in Table 1 ("Medical Costs" line item).

Medical Consultant (MC) Payments

For FY 2018, the KY-DDS reported Medical Consultant Costs that exceeded the amount that could be supported for 1 of 24 Medical Consultant samples tested. Due to human error, the wrong payment amount was entered into the system resulting in the KY-DDS issuing a payment to the medical consultant for more than the supportable amount.

Per 2 C.F.R. part 225, Appendix A Section C, to be allowable under Federal awards, costs must be adequately documented.

Medical Consultant Costs claimed on the Form SSA-4513 were overstated, with the actual error noted of \$1,292 related to one sample and a projected error total of \$44,120 for FY 2018 due to incorrect amount being paid to the medical consultant. This projected error is noted in Table 1 ("Personnel Service Costs" line item).

Table 1: KY-DDS Projected Unsupported Costs

	Projected Unsupportable Amounts	
Line Item	FY2017	FY2018
Personnel Service Costs - MC	N/A	\$44,120
Medical Costs - CE	\$16,342	\$15,774
Indirect Costs	\$410,679	\$264,906
Total	\$427,021	\$324,800

Objective 3: Reconcile funds drawn down with claimed costs

Based on testing procedures performed to reconcile funds drawn down with claimed costs, we determined that no findings were noted.

Objective 4: Assess the General Security Controls Environment

Grant Thornton assessed the design and implementation of general security controls as they pertained to the KY-DDS and its legacy case processing system, a server that resides on the SSA network. In addition, we assessed the operating effectiveness of specific physical access and systems access controls, determined based on control objective and frequency. The objective and scope of testing has been defined in detail within Appendix A. Due to the sensitive nature of these controls, we present the results and associated findings in a separate memorandum.

CONCLUSIONS AND RECOMMENDATIONS

Based on the procedures performed, we noted areas where improvement was needed in internal control over accounting and reporting of administrative costs as well as general security controls. Additionally, we noted that projected administrative costs of \$427,021 and \$324,800

as claimed on the Form SSA-4513 for FYs 2017 and 2018, respectively as of March 31, 2020 did not meet criteria for allowability. We have the following recommendations for the findings noted in the above section.

Objective 1

1. We recommend that the KY-DDS maintain sufficient documentation evidencing the SAM checks and license checks performed for each medical consultant and CE provider in accordance with POMS DI 39569.300.
2. We recommend that the KY-DDS implement processes and controls which serve to reconcile medical consultant timesheets, contracts, invoices, pay vouchers, and other applicable documentation to confirm that underlying expenses reported on the Form SSA-4513 are appropriate and supported.
3. We recommend that the KY-DDS review the MOU and allocation percentages in the accounting system periodically to ensure occupancy costs are allocated accurately.

Objective 2

4. We recommend that the KY-DDS maintain documentation of all factor calculations used to arrive at indirect cost allocations, including estimate calculations.
5. We recommend that timely CPT code and fee updates be made on the fee schedule and submitted for RO approval, so that CPT coding and fees per internal and external documents aligned with approvals in accordance with POMS DI 39545.600.
6. We recommend that the KY-DDS use the CE fees indicated on the fee schedule for its CE payment in accordance with POMS DI 39545.625.
7. We recommend that the KY-DDS implement processes and controls which serve to reconcile medical consultant timesheets, contracts, invoices, pay vouchers, and other applicable documentation to confirm that underlying expenses reported on the Form SSA-4513 are appropriate and supported.

Objective 4

Due to the sensitive nature of general security controls, we present recommendations for the KY-DDS to strengthen its general security controls environment in a separate memorandum.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have issued reportable findings in the body of this report. The purpose of this reporting is to communicate, as applicable, noncompliance with the criteria; deficiencies in internal control; and instances of fraud, or noncompliance with the provisions of laws, regulations, contracts or grant agreements that are significant within the context of the audit objectives. It also includes those deficiencies in internal control that are not significant within the context of the audit objectives, but which warrant the attention of those charged with governance. Reporting these items is an integral

part of a performance audit performed in accordance with *Government Auditing Standards* in considering the KY-DDS' internal control and compliance related to the audit objectives.

KY-DDS' RESPONSE

The full text of the KY-DDS' response is included in Appendix C. The KY-DDS' response to our findings was not subjected to the auditing procedures applied in the audit, and accordingly, we express no opinion on the KY-DDS' response. While our report concluded that certain costs were unsupported and therefore did not meet the criteria for allowability, SSA will make the final determination regarding disallowed costs. SSA was provided the report for comment and, although not required, did not provide comments on the recommendations.

Intended Purpose

The purpose of this performance audit report is solely to report our findings and conclusions in relation to the audit objectives. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink that reads "Grant Thornton LLP". The signature is written in a cursive, flowing style.

Baltimore, Maryland
September 20, 2021

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We obtained sufficient, appropriate evidence to evaluate the performance audit objectives for the Kentucky Disability Determination Service (DDS) in accordance with applicable *Government Auditing Standards* (GAS). To accomplish the objectives, we completed the following.

- Reviewed the applicable Federal regulations, the *Social Security Act*, and SSA Program Operations Manual System (POMS).
- Reviewed prior Office of the Inspector General (OIG) work over the Kentucky DDS as well as available and relevant Single Audits performed by the State's auditor.
- Communicated with the Social Security Administration's (SSA) Office of Disability Determination, SSA's Atlanta Regional Office, Kentucky DDS, and the Cabinet for Health and Family Services (Parent Agency) staff to obtain background information.
- Reconciled KY-DDS transactional listings to the administrative costs reported on its submitted Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, for Federal Fiscal Years (FY) 2017 and 2018.

The fourth audit objective was to assess general security controls. Due to the sensitive nature of general security controls, we presented the results and recommendations in a separate memorandum.

We determined and applied the following performance materiality for each tested fiscal year as shown in Table A–1.

Table A–1: KY-DDS Performance Materiality

Materiality Type	FY 2017	FY 2018
Performance Materiality	\$523,000	\$512,000

Sampling

Our sampling methodology encompassed three general areas of costs as reported on the Social Security Administration's (SSA) Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*: (1) Personnel, (2) Medical, (3) Indirect, and (4) All Other Non-personnel Costs.

Personnel Service Costs

For payroll costs, we sampled using monetary unit sampling (MUS) and randomly selected 60 samples for each fiscal year for FY17 and FY18. Other Personnel Service Costs were segregated and sampled using MUS and randomly selected 26 and 24 samples for FY17 and FY18, respectively. The sampling tool sample size is synonymous with the IDEA selected sample size.

Medical Costs

For consultative examinations, the sampling tool calculated 41 and 43 samples for FY17 and FY18 respectively. For medical evidence of records transactions, the sampling tool calculated 22 and 20 samples for FY17 and FY18 respectively. However, we randomly selected 50 consultative examinations and 50 medical evidence of records transactions for each fiscal year. The discrepancies between the sampling tool and the sample selections are due to selecting the recommended sample size of 50 or more.

Indirect Costs

For indirect costs, we used MUS sampling and selected 18 samples for each fiscal year for FY17 and FY18. When selecting a MUS sample, items larger than the sampling interval may be selected multiple times, which could cause the actual number of items selected to differ from the computed sample size. In this case, the sampling tool generated a sample size of 18 and 19 for FY17 and FY18, while IDEA selected a sample size of 18 for both fiscal years using MUS.

All Other Non-Personnel Costs

Before selecting the sample items, we segregated high dollar value transactions related to lease payments within occupancy costs and will test these items in their entirety. The remainder of the costs within All Other Non-Personnel Costs were subject to MUS. The sampling tool generated a sample size of 19 and 23 positive transactions for FY17 and FY18. IDEA only selected 17 and 19 samples respectively due to items larger than the sampling interval being selected multiple times. We also randomly selected 5 samples of negative transactions for both FY17 and FY18. Unless otherwise noted, the sampling sample size is synonymous with the IDEA selected sample size. For FY18, the sampling tool generated a sample size of 5, while IDEA selected a sample size of 3 due to high value items being selected more than once.

Appendix B – FORMS SSA-4513

FY2017 State Agency Report of Obligations for SSA Disability Programs

Social Security Administration		Form Approved OMB No. 0968-0421	
STATE AGENCY REPORT OF OBLIGATIONS FOR SSA DISABILITY PROGRAMS			
(See attached Instructions and Paperwork/Privacy Act Notice)			
NAME OF AGENCY Cabinet for Health and Family Services Kentucky Disability Determination Services		STATE Kentucky KY DUNS# 927049767	
FISCAL YEAR 17	FOR PERIOD From: 10/1/2016	To: 3/31/2020	
REPORTING ITEMS - ALL TITLES	(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS	(C) TOTAL OBLIGATIONS
1. Personnel Service Costs	\$ 30,442,778	\$ -	\$ 30,442,778
2. Medical Costs (sum of 2a+2b)	\$ 8,886,710	\$ -	\$ 8,886,710
a. Consultative Examinations (sum of a1+a2+a3)	\$ 5,794,666	\$ -	\$ 5,794,666
1) Disability Insurance (DI) Claims	\$ 1,852,448	\$ -	\$ 1,852,448
2) Supplemental Security Income (SSI) Claims	\$ 2,621,330	\$ -	\$ 2,621,330
3) Concurrent DI/SSI Claims	\$ 1,320,888	\$ -	\$ 1,320,888
b. Medical Evidence of Record (sum of b1+b2+b3)	\$ 3,092,044	\$ -	\$ 3,092,044
1) Disability Insurance (DI) Claims	\$ 1,082,585	\$ -	\$ 1,082,585
2) Supplemental Security Income (SSI) Claims	\$ 1,296,670	\$ -	\$ 1,296,670
3) Concurrent DI/SSI Claims	\$ 712,789	\$ -	\$ 712,789
3. Indirect Costs (see attached addendum)	\$ 2,445,645	\$ -	\$ 2,445,645
4. All Other Nonpersonnel Costs	\$ 4,819,919	\$ -	\$ 4,819,919
Occupancy	\$ 1,996,010	\$ -	\$ 1,996,010
Contracted Costs (exclude EDP)	\$ 251,560	\$ -	\$ 251,560
EDP Maintenance	\$ 586,066	\$ -	\$ 586,066
New EDP Equipment/Upgrades	\$ -	\$ -	\$ -
Equipment Total	\$ 113,358	\$ -	\$ 113,358
1) Purchases	\$ -	\$ -	\$ -
2) Rental	\$ 113,358	\$ -	\$ 113,358
Communications	\$ 616,077	\$ -	\$ 616,077
Applicant Travel	\$ 103,636	\$ -	\$ 103,636
DDS Travel	\$ 56,284	\$ -	\$ 56,284
Supplies	\$ 601,056	\$ -	\$ 601,056
Miscellaneous	\$ 495,872	\$ -	\$ 495,872
5. Total: (sum of 1 thru 4)	\$ 46,595,051	\$ -	\$ 46,595,051
6. Cumulative Obligational Authorization			\$ 46,609,750
7. SSA-871 Attached? YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>			
I CERTIFY THAT THE ABOVE REPORT AND ANY SUPPORTING STATEMENTS ARE TRUE STATEMENTS OF DISBURSEMENTS AND UNLIQUIDATED OBLIGATIONS FOR DETERMINATIONS OF DISABILITY UNDER THE PROVISIONS OF THE SOCIAL SECURITY ACT, AS AMENDED.			
SIGNATURE Kelli Hill		TITLE Director of Accounting 4/30/2020	DATE

Form SSA-4513 (revised 03-2016)

FY2018 State Agency Report of Obligations for SSA Disability Programs

Social Security Administration

Form Approved OMB No. 0980-0421

STATE AGENCY REPORT OF OBLIGATIONS FOR SSA DISABILITY PROGRAMS

(See attached Instructions and Paperwork/Privacy Act Notice)

NAME OF AGENCY Cabinet for Health and Family Services Kentucky Disability Determination Services		STATE Kentucky KY DUNS# 927049767	
FISCAL YEAR 18	FOR PERIOD From: 10/1/2017		To: 3/31/2020
REPORTING ITEMS - ALL TITLES	(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS	(C) TOTAL OBLIGATIONS
1. Personnel Service Costs	\$ 29,424,405	\$ -	\$ 29,424,405
2. Medical Costs (sum of 2a+2b)	\$ 8,608,510	\$ -	\$ 8,608,510
a. Consultative Examinations (sum of a1+a2+a3)	\$ 5,841,825	\$ -	\$ 5,841,825
1) Disability Insurance (DI) Claims	\$ 1,776,859	\$ -	\$ 1,776,859
2) Supplemental Security Income (SSI) Claims	\$ 2,832,500	\$ -	\$ 2,832,500
3) Concurrent DI/SSI Claims	\$ 1,232,466	\$ -	\$ 1,232,466
b. Medical Evidence of Record (sum of b1+b2+b3)	\$ 2,766,684	\$ -	\$ 2,766,684
1) Disability Insurance (DI) Claims	\$ 922,360	\$ -	\$ 922,360
2) Supplemental Security Income (SSI) Claims	\$ 1,259,475	\$ -	\$ 1,259,475
3) Concurrent DI/SSI Claims	\$ 584,849	\$ -	\$ 584,849
3. Indirect Costs (see attached addendum)	\$ 2,471,020	\$ -	\$ 2,471,020
4. All Other Nonpersonnel Costs	\$ 5,093,702	\$ 43,273	\$ 5,136,974
Occupancy	\$ 2,300,415	\$ 4,982	\$ 2,305,397
Contracted Costs (exclude EDP)	\$ 489,761	\$ 850	\$ 490,612
EDP Maintenance	\$ 569,690	\$ 1,812	\$ 571,503
New EDP Equipment/Upgrades	\$ -	\$ -	\$ -
Equipment Total	\$ 132,279	\$ -	\$ 132,279
1) Purchases	\$ 22,875	\$ -	\$ 22,875
2) Rental	\$ 109,404	\$ -	\$ 109,404
Communications	\$ 699,453	\$ 20,435	\$ 719,888
Applicant Travel	\$ 77,013	\$ -	\$ 77,013
DDS Travel	\$ 81,858	\$ 1,226	\$ 83,084
Supplies	\$ 154,495	\$ 3,739	\$ 158,234
Miscellaneous	\$ 588,736	\$ 10,228	\$ 598,964
5. Total: (sum of 1 thru 4)	\$ 45,597,636	\$ 43,273	\$ 45,640,909
6. Cumulative Obligational Authorization			\$ 45,682,060

7. SSA-871 Attached? YES ☐ NO ☒

I CERTIFY THAT THE ABOVE REPORT AND ANY SUPPORTING STATEMENTS ARE TRUE STATEMENTS OF DISBURSEMENTS AND UNLIQUIDATED OBLIGATIONS FOR DETERMINATIONS OF DISABILITY UNDER THE PROVISIONS OF THE SOCIAL SECURITY ACT, AS AMENDED.

SIGNATURE <i>Kelli Hill</i>	TITLE Director of Accounting 4/30/2020	DATE
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Form SSA-4513 (revised 03/2016)

Appendix C – KENTUCKY DDS' RESPONSE



CABINET FOR HEALTH AND FAMILY SERVICES
Department for Income Support
Office of the Commissioner

Andy Beshear
Governor

102 Athletic Dr.
Frankfort, KY 40601
steven.veno@ky.gov
www.chfs.ky.gov

Eric C. Friedlander
Secretary

Steven P. Veno
Commissioner

August 22, 2021

Office of the Inspector General
Social Security Administration
6401 Security Blvd.
Baltimore, Maryland 21235-0001

Dear Assistant General Anderson,

Kentucky appreciates the opportunity to comment on the draft report describing the results of the Administrative Cost Audit conducted by Grant Thornton. Kentucky understands the purpose and need for audits as it is important to ensure accuracy of cost and financial records in keeping of federal revenues and the Social Security Trust Fund. Per directions, the Kentucky DDS is to provide two documents, the first, which will be made public along with the final report. This response will satisfy document one. Under separate communication, as directed, document two related to DDS IT, will follow.

Kentucky provided full participation and cooperation in the audit. KY- DDS provided the auditors with access to all available information, including all relevant records, documentation of internal control and related information, and to any additional information requested by the auditors. In addition, Kentucky provided the auditors with unrestricted access to individuals and contacts within the State to obtain audit evidence.

In addition, the draft report projects that \$427,021 in FY17 and \$324,800 in FY18 are not allowable. We disagree with these findings as all funds were used for disability program purposes and accurate to the best of our knowledge.

Objective 1

Verification of Medical Qualifications:

Grant Thornton recommended that the KY-DDS maintain sufficient documentation evidencing the SAM checks and license checks performed for each medical consultant and CE provider in accordance with POMS DI 39569.300.

Kentucky.gov



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State/KY-DDS Response:

KY-DDS did perform annual checks for System for Award Management (SAM) checks and credential checks. KY-DDS has addressed the internal process of maintaining appropriate documentation of the review and enhanced our internal procedures. This includes documenting the name and dates of verification, name of the individual who performed the verification and the relevant expiration of licenses. This documentation will be maintained for each MC/PC with appropriate supporting documentation and updated during license renewal while also maintaining historical documentation.

Medical Consultant (MC) Payments:

Grant Thornton recommends that the KY-DDS implement processes and controls which serve to reconcile medical consultant timesheets, contracts, invoices, pay vouchers, and other applicable documentation to confirm that underlying expenses reported on the Form SSA-4513 are appropriate and supported.

State/KY-DDS Response:

The entire MCS payment process was overhauled in January 2018. The new process eliminates the possibility of this type of error reoccurring and requires the involvement of fiscal staff at both KY-DDS and parent agency, CHFS. The Medical Relations Branch (MRB) staff now submit the MCS payroll vouchers and backup documentation to the KY-DDS budget office. Budget staff prepare the invoices, monitor and reconcile the contracts, and obtain approval signatures on each invoice. The approved invoices are submitted to the Parent Agency's accounting department, where the invoices are reviewed, verified against contract and payments are issued. This procedure ensures adequate review and approval of each MCS invoice throughout the payment process, as well as ensuring appropriate documentation is retained.

Occupancy Cost Allocation:

Grant Thornton recommends that the KY-DDS review the MOU and allocation percentages in the accounting system periodically to ensure occupancy costs are allocated accurately.

State/KY-DDS Response:

The allocation percentages in the accounting profile have been updated as of April 5, 2021. The allocation percentages will be reviewed on an annual basis going forward.

Objective 2

Unsupported Indirect Costs

Grant Thornton recommended that the KY-DDS maintain documentation of all factor calculations used to arrive at indirect cost allocations, including estimate calculations.

State/KY-DDS Response:

The Enterprise Assessment is an annual assessment issued in the biennial state budget to all Executive Branch Agencies by the Office of the State Budget Director (OSBD) and the Commonwealth Office of Technology (COT). COT is a service bureau to the Kentucky Executive Branch Agencies for IT related items such as network infrastructure, virus and malware protection, security monitoring, software licenses, etc. COT accomplishes cost recovery through a combination of rated services solely on a per

unit basis, fixed cost services provided to agencies, pass-through, or direct charge-backs and assessments to recover costs for core required IT goods, services and resources. A rate sheet developed by COT identifies the enterprise and security assessment fees. COT then bills each agency, through its cost pool, the enterprise assessment monthly. The parent agency, CHFS, then allocates these costs monthly through its federally approved Public Assistance Cost Allocation Plan and maintains this documentation. KY-DDS is committed to continuing to work with our federal partners as well as CHFS, OSBD and COT regarding the Commonwealth's Enterprise Assessment.

Current Procedural Terminology Codes and Fee Increase:

Grant Thornton recommended that timely CPT code and fee updates be made on the fee schedule and submitted for RO approval, so that CPT coding and fees per internal and external documents aligned with approvals in accordance with POMS DI 39545.600. Develop a fee schedule to be used by KY-DDS for payment of consultative examinations (CE).

State/KY-DDS Response:

KY-DDS has corrected this and the fee schedule will be updated, aligned with internal coding and submitted to the RO per POMS DI 39545.600 and POMS DI 39545.625.

Medical Consultant (MC) Payments:

Grant Thornton recommended that the KY-DDS implement processes and controls which serve to reconcile medical consultant timesheets, contracts, invoices, pay vouchers, and other applicable documentation to confirm that underlying expenses reported on the Form SSA-4513 are appropriate and supported.

State/KY-DDS Response:

The entire MCS payment process was overhauled in January 2018. The new process eliminates the possibility of this type of error reoccurring and requires the involvement of fiscal staff at both KY-DDS and parent agency, CHFS. The Medical Relations Branch (MRB) staff now submit the MCS payroll vouchers and backup documentation to the KY-DDS budget office. Budget staff prepare the invoices, monitor and reconcile the contracts, and obtain approval signatures on each invoice. The approved invoices are submitted to the Parent Agency's accounting department, where the invoices are reviewed, verified against contract and payments are issued. This procedure ensures adequate review and approval of each MCS invoice throughout the payment process, as well as ensuring appropriate documentation is retained.

Objective 4

Grant Thornton assessed the design and implementation of general security controls as they pertained to the Kentucky DDS and its legacy case processing system, a server that resides on the SSA network. In addition, they assessed the operating effectiveness of specific physical access and systems access controls, determined based on control objective and frequency. The objective and scope of testing has been defined in detail within Appendix A: Scope and Methodology. Due to the sensitive nature of these controls, we present the results and associated findings (if any) in a separate memorandum.

State/KY-DDS Response:

Due to the sensitive nature of this objective and recommendation, our response was submitted under separate email communication.

In conclusion, the KY-DDS acknowledges the importance of an audit and are committed to continuing improving. Thank you for giving us an opportunity to respond.

Kindest Regards,

Staci N. Cain

DDS Administrator

C: Eric Friedlander, CHFS Secretary
Steven P. Veno, DIS Commissioner
Astrud Masterson, OAS Executive Director

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