

December 4, 1998

Mr. Peter D. Spencer  
Assistant Regional Commissioner  
for Management and Operations Support  
Social Security Administration, Region IX  
P.O. Box 4203  
Richmond, California 94804

Dear Mr. Spencer:

The attached final report presents the results of our review, "Audit of Administrative Costs at the California Disability Determination Services" (A-09-97-51006). The objective of our review was to determine the propriety of the administrative costs claimed by the California State Department of Social Services for its disability determination services for the 2-year period ended September 30, 1996.

You may wish to comment on any further action taken or contemplated on our recommendations. If you choose to offer comments, please provide them within the next 60 days. If you wish to discuss the final report, please call me or have your staff contact Daniel R. Devlin, Deputy Assistant Inspector General for Audit, at (410) 965-9702.

Pamela J. Gardiner  
Assistant Inspector General  
for Audit

Enclosure

cc:  
Ken Nibali  
Acting Associate Commissioner for Disability

Helen Hepner  
Director  
Management Analysis and Audit Program Support Staff

Eloise Anderson  
Director  
California Department of Social Services

---

**OFFICE OF  
THE INSPECTOR GENERAL**

---

**SOCIAL SECURITY ADMINISTRATION**

---

**AUDIT OF ADMINISTRATIVE  
COSTS AT THE  
CALIFORNIA DISABILITY  
DETERMINATION SERVICES**

**December 1998**

**A-09-97-51006**

---

**AUDIT REPORT**

---



---

# EXECUTIVE SUMMARY

---

## OBJECTIVE

The objective of this audit was to determine the propriety of the administrative costs claimed by the California State Department of Social Services (DSS) for its disability determination services for the 2-year period ended September 30, 1996.

## BACKGROUND

The Social Security Administration (SSA) is responsible for implementation of the Disability Insurance (DI) program under title II of the Social Security Act (Act). The DI program was established in 1954 to provide benefits to wage earners and their families in the event the wage earner becomes disabled. SSA is also responsible for implementation of the Supplemental Security Income (SSI) program under title XVI of the Act. The SSI program was established in 1972 to provide income to financially needy individuals who are aged, blind, or disabled.

Disability determinations under the DI and SSI programs are performed by an agency in each State in accordance with Federal regulations. In carrying out its obligation, each State agency is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. Each State agency is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from claimants' physicians or other treating sources.

SSA reimburses the State agency for 100 percent of allowable expenditures up to its approved funding authorization. Each State agency is authorized to withdraw Federal funds through the U.S. Department of Health and Human Services' (HHS) Payment Management System to meet immediate program expenditures. At the end of each quarter of the Federal fiscal year (FY), each State agency submits to SSA a "*State Agency Report of Obligations for SSA Disability Programs*" (Form SSA-4513).

The objectives of our audit were to determine whether:

- the expenditures and obligations for the period of October 1, 1994 through September 30, 1996, were properly authorized, approved, and disbursed;
- the unliquidated obligations were accurately recorded;

- the Federal funds drawn down were consistent with the total expenditures for FYs 1995 and 1996; and
- the internal controls over the accounting and reporting of administrative costs were adequate.

Our methodology included a review of the applicable laws, regulations, policies and procedures, and interviews with SSA and DSS officials as necessary. We performed an examination of administrative costs (i.e., personnel, medical, indirect, and other costs) incurred and claimed by DSS on behalf of the California Disability Determination Services (CADDs) for the period of October 1, 1994, through September 30, 1996. In addition, we reconciled the accounting records to the administrative costs reported on the quarterly Form SSA-4513. To fully develop some of the findings noted during our review, we expanded our audit scope to include the period of July 1994 through April 1998, as appropriate.

Audit work was performed at DSS headquarters in Sacramento, California; CADDs' branch office in Sacramento, California; California State Auditor's Office in Sacramento, California; SSA regional office in San Francisco, California; and Office of Audit field office in Richmond, California. Field work was conducted from August 1997 to May 1998.

## **RESULTS OF REVIEW**

Our review of the accounting records and administrative costs claimed by DSS disclosed that disbursements and unliquidated obligations were overstated. This occurred, in part, due to: (1) incorrect time charges for allocating indirect costs, (2) ineffective methods for estimating unliquidated obligations, and (3) inadequate controls for reimbursing medical costs. As a result, DSS overreported its total obligations to SSA by \$9,138,726 for the period under audit (see Appendix B for a summary of monetary results). In addition, we estimate that SSA will realize about \$7.2 million in savings over the next 5 years as a result of resolving these findings. Specifically, we found:

- **DSS CLAIMED UNALLOWABLE INDIRECT COSTS OF \$3,580,673 FOR JULY 1994 THROUGH APRIL 1998 FOR ACTIVITIES THAT WERE INCORRECTLY CHARGED TO THE DEPARTMENTAL INDIRECT COST POOL**
- **DSS CLAIMED INELIGIBLE PERSONNEL AND OTHER COSTS OF \$208,455 FOR ACTIVITIES THAT DID NOT BENEFIT SSA'S PROGRAMS FOR OCTOBER 1996 THROUGH APRIL 1998**
- **DSS CLAIMED EXCESSIVE MEDICAL COSTS OF \$192,001 FOR DOCTORS WHO WERE PAID TWICE TO REVIEW MEDICAL RECORDS AND VENDORS WHO RECEIVED DUPLICATE PAYMENTS FOR MEDICAL SERVICES DURING FYs 1995 AND 1996**

- DSS OVERSTATED THE AMOUNT OF UNLIQUIDATED OBLIGATIONS NEEDED FOR FYs 1995 AND 1996 BY \$5,157,597
- DSS NEEDS TO IMPROVE ACCESS CONTROLS OVER THE MODERNIZED INTERIM DISABILITY ADJUDICATION SYSTEM (MIDAS) TO PREVENT MISUSE THROUGH UNAUTHORIZED TRANSACTIONS

## **CONCLUSIONS AND RECOMMENDATIONS**

We concluded that DSS had overstated its disbursements by \$3,981,129 for the period of July 1994 through April 1998. We also concluded that DSS had overstated its unliquidated obligations by \$5,157,597 for FYs 1995 and 1996. As a result, SSA overreimbursed DSS for its administrative costs under the DI and SSI programs. We recommend that SSA require DSS to:

- Refund \$3,321,401 for indirect costs that did not benefit SSA programs but were charged to the departmental indirect cost pool by the Administration Division, Information Systems Division, and Director's Office.
- Refund \$212,719 for indirect costs related to the Office of Community Relations; refund \$33,084 for direct costs of program divisions that were incorrectly charged as indirect costs; and refund \$13,469 for indirect costs related to the Public Inquiry and Response Unit.
- Determine the propriety of indirect costs charged to the departmental indirect cost pool by other DSS components and refund any unallowable costs to SSA. Also, direct the Personal Computer (PC) Support Unit, Welfare Program Reform, and Information Technology Projects Bureau to properly charge costs to the benefiting programs.
- Provide training to all DSS personnel in time reporting policies and procedures; review the departmental indirect cost pool for inappropriate charges on a periodic basis; and implement proper time reporting procedures so that costs are equitably distributed to the benefiting programs.
- Refund \$196,413 for ineligible building lease costs for the Information Technology Projects Bureau. Also, refund \$12,042 for ineligible personnel and other costs related to the Disability and Adult Programs Division.
- Refund \$132,520 for doctors who were paid twice to review medical records and clarify procedures for the reimbursement of doctors' fees related to the review of medical records.
- Refund \$59,481 for vendors who received duplicate payments for medical services; withhold payments for medical services to vendors until the branch offices certify that exception reports have been reviewed and any discrepancies were

resolved; and contact medical providers prior to ordering medical records for claimants to confirm receipt of SSA's request and avoid a separate request for the same information.

- Deobligate \$867,490 in unsupported obligations that were outstanding as of December 31, 1997. Also, improve the methods used to record unliquidated obligations so that the recorded obligations more accurately reflect the amounts needed and ensure that the unliquidated obligations are reviewed on a monthly basis after the end of the FY.

## **AGENCY COMMENTS AND THE OFFICE OF THE INSPECTOR GENERAL (OIG) RESPONSE**

DSS generally concurred with our findings, but stated that it was unable to confirm the accuracy of reported total overcharges without completing a review of the documentation supporting those amounts. The findings and recommendations as presented consider the comments provided by DSS. SSA found the draft report to be valid and reasonable and supported the recommendations.

We believe our recommendations are valid and should be implemented. We are available to discuss the rationale and methodology used to quantify the overcharges identified in our findings with DSS employees as needed. For a detailed discussion of the comments from DSS, see pages 17-20 of this report. The full text of DSS' comments is shown in Appendix F.

---

# TABLE OF CONTENTS

---

	Page
<b>EXECUTIVE SUMMARY</b> .....	i
<b>INTRODUCTION</b> .....	1
<b>RESULTS OF REVIEW</b> .....	5
<b>INDIRECT COSTS</b> .....	5
▪ Background .....	6
▪ Administration Division, Information Systems Division, and Director's Office .....	7
▪ Office of Community Relations .....	8
▪ Program Divisions .....	9
▪ Public Inquiry and Response Unit .....	9
▪ Other Support Components .....	9
<b>PERSONNEL AND OTHER COSTS</b> .....	10
▪ Information Technology Projects Bureau .....	10
▪ Disability and Adult Programs Division .....	11
▪ Other Support Components .....	11
<b>MEDICAL COSTS</b> .....	12
▪ Doctors Were Paid Twice to Review Medical Records .....	12
▪ Vendors Received Duplicate Payments for Medical Services .....	13
<b>UNLIQUIDATED OBLIGATIONS</b> .....	14
▪ Medical Costs .....	15
▪ Indirect Costs .....	15
▪ Personnel and Other Costs .....	16
▪ Summary .....	16
<b>CONCLUSIONS AND RECOMMENDATIONS</b> .....	17
<b>OTHER MATTERS</b> .....	22

## **APPENDICES**

APPENDIX A - Acronyms

APPENDIX B - Summary of Monetary Results

APPENDIX C - The California State Department of Social Services Reported vs.  
Allowed Obligations for Fiscal Year 1995

APPENDIX D - The California State Department of Social Services Reported vs.  
Allowed Obligations for Fiscal Year 1996

APPENDIX E - Sampling Methodology for Duplicate Payments

APPENDIX F - State of California Comments

APPENDIX G - Major Report Contributors

APPENDIX H - SSA Organizational Chart



---

# INTRODUCTION

---

## OBJECTIVE

The objective of this audit was to determine the propriety of the administrative costs claimed by DSS for its disability determination services for the 2-year period ended September 30, 1996.

## BACKGROUND

The DI program was established in 1954 under title II of the Act. The DI program is designed to provide benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted the SSI program under title XVI of the Act. The SSI program is designed to provide income to financially needy individuals who are aged, blind, or disabled.

SSA is primarily responsible for implementing policies governing the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by an agency in each State in accordance with Federal regulations. In carrying out its obligation, each State agency is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each State agency is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from claimants' physicians or other treating sources. SSA reimburses the State agency for 100 percent of allowable expenditures up to its approved funding authorization.

Each State agency is authorized to withdraw Federal funds through HHS' Payment Management System to meet immediate program expenditures. Effective July 1, 1994, the funds are to be drawn in accordance with a cooperative agreement between the Department of the Treasury and the State agency under the Cash Management Improvement Act (CMIA). At the end of each quarter of the Federal FY, each State agency is required to submit to SSA a "*State Agency Report of Obligations for SSA Disability Programs*" (Form SSA-4513) to account for program disbursements and unliquidated obligations. An advance or reimbursement for costs under the program is subject to the requirements set forth in the Office of Management and Budget's (OMB) Circular A-87, "*Cost Principles for State and Local Governments*."

CADDS is a component within DSS, the parent agency. For FYs 1995 and 1996, CADDS had approximately 1,600 employees and an authorized budget of \$300.4 million for administrative costs. As of December 31, 1997, DSS reported total

claimed costs of \$294.6 million, unliquidated obligations of \$1.3 million, and deobligated funds of \$4.5 million for the 2-year period. DSS' Fiscal Systems and Accounting Branch performs the primary accounting functions for CADDSS. Allocation of indirect costs is performed in accordance with DSS' cost allocation plan approved by HHS.

In the prior audit of DSS' administrative costs for FYs 1992 and 1993, HHS' Office of Inspector General (OIG) reported that DSS had: (1) overcharged SSA for unallowable indirect and lease costs, (2) claimed unliquidated obligations that were unsupported or invalid, and (3) made accounting classification errors in the Personal Leave Program and equipment costs. HHS/OIG recommended, among other things, that DSS improve its accountability over the allocation of indirect costs and unliquidated obligations to ensure that the claimed costs were eligible for Federal reimbursement.<sup>1</sup>

## **SCOPE AND METHODOLOGY**

We reviewed the administrative costs reported by DSS on its quarterly Form SSA-4513 for the FYs ended September 30, 1995 and 1996. However, one of our findings affected the costs claimed for the last quarter of FY 1994. In addition, six of our findings affected some of the costs claimed in FYs 1997 and 1998. Therefore, we expanded the audit period to fully develop these findings. For the periods reviewed, we selected a random sample of medical costs (see Appendix E) and a judgmental sample of personnel, indirect, and other costs based, in part, on the prior audit results, activities of DSS organizational components, magnitude of dollar payments, and interviews with DSS officials.

The purpose of our audit was to determine if DSS had complied with the applicable laws, regulations, and policies and procedures for its disability determination services. Accordingly, we evaluated whether: (1) the expenditures and obligations for the period of October 1, 1994, through September 30, 1996, were properly authorized, approved, and disbursed; (2) the unliquidated obligations were accurately recorded; (3) the Federal funds drawn down were consistent with the total expenditures for FYs 1995 and 1996; and (4) the internal controls over the accounting and reporting of administrative costs were adequate.

To accomplish our objectives, we performed the following procedures:

- Reviewed OMB Circular A-87; Code of Federal Regulations (CFR); SSA's Program Operations Manual System (POMS); DSS' Time Reporting Handbook; DSS' Cost Allocation Plan for Direct and Indirect Costs; and the CMIA agreement for the State of California.

---

<sup>1</sup> "State of California Department of Social Services Disability Evaluation Division Administrative Cost Audit of Disability Determination Services Provided to the Social Security Administration for Fiscal Years 1992 and 1993" (A-09-94-00046), dated December 21, 1994.

- Conducted interviews with California State Auditor's Office, SSA regional office, and DSS headquarters and branch officials.
- Reviewed audit reports and working papers from prior audits conducted by the California State Auditor's Office and HHS/OIG, including the corrective actions taken in response to the findings and recommendations.
- Analyzed computer printouts generated from the MIDAS and California State Accounting and Reporting System.
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures.
- Performed an examination of the administrative costs (e.g., personnel, medical, indirect, and other costs) incurred and claimed by DSS for the period of October 1, 1994 through September 30, 1996.
- Reconciled the accounting records to the costs reported by DSS on its quarterly Form SSA-4513 for the period of October 1, 1994, through September 30, 1996.

We obtained sufficient evidence and conducted such tests, as necessary, to assess DSS' compliance with applicable laws and regulations relating to the draw down of funds pursuant to HHS' Payment Management System regulations, and its accounting for disbursements and unliquidated obligations pursuant to the CMIA agreement, OMB Circular A-87, and SSA's POMS. Except as noted in this report, the results of our tests indicated that, with respect to the items tested, DSS complied in all material respects with Federal cost principles and regulations. For those items not tested, nothing came to our attention to indicate that the untested items were not in compliance with applicable laws and regulations.

We reviewed the internal controls applicable to the recording and reporting of funds authorized, disbursed, and obligated. We also reviewed internal controls over the draw down of Federal funds and the computer system used to process disability claims. We found the internal controls were adequate except for the weaknesses noted in the "Other Matters" section of this report and included in a separate management letter. For those items not tested, we reviewed internal controls to obtain an understanding of the control structure to the extent necessary to perform our audit. In this regard, we relied on the work of the California State Auditor's Office, which reported on the adequacy of the internal controls.

Audit work was performed at DSS headquarters in Sacramento, California; CADDS' branch office in Sacramento, California; California State Auditor's Office in Sacramento, California; SSA regional office in San Francisco, California; and Office of Audit field office in Richmond, California. Field work was conducted from August 1997 to May 1998. Our audit was performed in accordance with generally accepted government auditing standards.

---

# RESULTS OF REVIEW

---

Our review of the accounting records and administrative costs claimed by DSS disclosed that disbursements and unliquidated obligations were overstated. We found that DSS had overstated its disbursements by \$3,981,129 for the period of July 1994 through April 1998. We also found that DSS had overstated its unliquidated obligations by \$5,157,597 for FYs 1995 and 1996. This occurred, in part, due to: (1) incorrect time charges for allocating indirect costs, (2) ineffective methods for estimating unliquidated obligations, and (3) inadequate controls for reimbursing medical costs. As a result, DSS overreported its total obligations to SSA by \$9,138,726 for the period under audit (see Appendix B for a summary of monetary results). Specifically, we found:

- DSS claimed unallowable indirect costs of \$3,580,673 for July 1994 through April 1998 for activities that were incorrectly charged to the departmental indirect cost pool.
- DSS claimed ineligible personnel and other costs of \$208,455 for activities that did not benefit SSA's programs for October 1996 through April 1998.
- DSS claimed excessive medical costs of \$192,001 for doctors who were paid twice to review medical records and vendors who received duplicate payments for medical services during FYs 1995 and 1996.
- DSS overstated the amount of unliquidated obligations needed for FYs 1995 and 1996 by \$5,157,597.
- DSS needs to improve access controls over MIDAS to prevent misuse through unauthorized transactions.

We estimate that SSA will realize about \$7.2 million in savings over the next 5 years as a result of resolving these findings. The total costs claimed for FYs 1995 and 1996, recommended audit adjustments, and allowable costs for disbursements and unliquidated obligations are presented in Appendices C and D of this report.

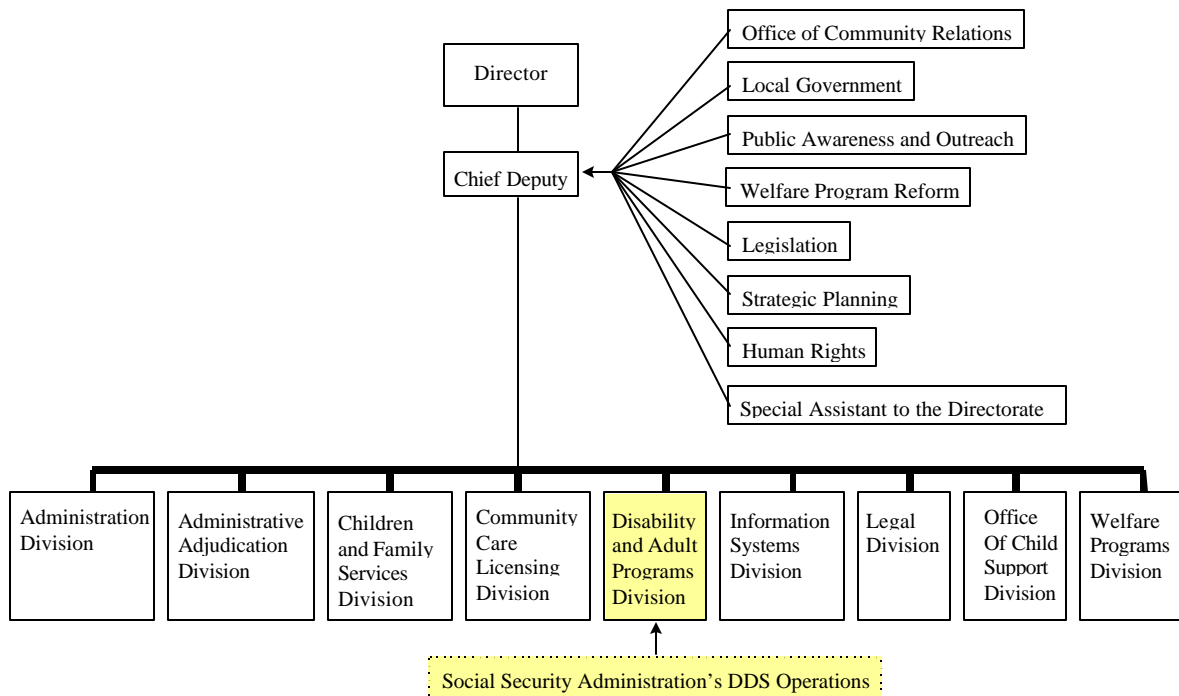
## INDIRECT COSTS

For the period of July 1994 through April 1998, we found that DSS claimed unallowable indirect costs totaling \$3,580,673 for activities that were incorrectly charged to the departmental indirect cost pool. Details follow.

## Background

DSS is comprised of the Director's Office and various program and support divisions. The disability determination services is one of the components of the Disability and Adult Programs Division. Within DSS, the activities of some employees and components benefit specific programs while the activities of other employees and components benefit the department as a whole. The following chart provides an overview of the organizational structure of DSS.

## Organizational Chart for Department of Social Services



DSS procedures require components to charge costs directly to the benefiting programs whenever possible.<sup>2</sup> Indirect cost pools are used when activities benefit multiple program areas or the entire department. The departmental indirect cost pool is designed to accumulate the costs of activities that benefit all programs within DSS and allocate such costs in a reasonable and equitable manner. In general, indirect costs are allocated from the departmental indirect cost pool to all programs administered by DSS in relation to the total salaries charged to each program.<sup>3</sup> Salary costs are charged to programs based on time reporting by employees within each organizational component.

<sup>2</sup> DSS' *Time Reporting Handbook*, dated June 7, 1988.

<sup>3</sup> DSS' *Cost Allocation Plan for Direct and Indirect Costs*, State FYs 1995 through 1997.

**Administration Division, Information Systems Division, and Director's Office**

DSS incorrectly charged the costs of activities that did not benefit SSA programs to the departmental indirect cost pool. These costs were charged to the departmental indirect cost pool by components within the Administration Division, Information Systems Division, and Director's Office. This occurred because DSS personnel: (1) were not fully aware of proper time reporting procedures and use of the departmental indirect cost pool, and (2) had not received training since DSS' *Time Reporting Handbook* was issued in June 1988. As a result, SSA reimbursed DSS for \$3,321,401 in unallowable costs for October 1994 through April 1998. The following table summarizes the indirect costs that did not benefit SSA programs but were allocated to CADDs.

<b>Unallowable Costs Charged to SSA Programs Through Departmental Indirect Cost Pool</b>		
<u>DSS Component</u>	<u>Unallowable Costs</u>	<u>Period Claimed</u>
<b>Administration Division</b>		
Financial Planning Branch	\$54,422	10/94 - 2/98
Estimates Bureau	\$454,470	10/94 - 9/97
Information Services Bureau	\$798,722	10/94 - 9/97
County Cost Analysis Bureau	\$277,695	10/94 - 2/98
Management and Staff Services Branch	\$13,878	10/94 - 3/98
Client and Management Services Bureau	\$151,110	10/94 - 6/97
Contracts Section	\$208,960	10/94 - 1/98
Language Services Bureau	\$355,608	10/94 - 11/97
Regulations Bureau	\$364,524	10/94 - 3/98
<b>Information Systems Division</b>		
PC Support Unit	\$527,322	10/94 - 4/98
<b>Director's Office</b>		
Welfare Program Reform	\$114,690	10/96 - 4/98
<b>TOTAL</b>	<b><u>\$3,321,401</u></b>	

With the exception of the Contracts Section, these components generally performed activities that benefited all programs administered by DSS other than the SSA programs. The Contracts Section performed some activities for the entire department, but the time of four employees was incorrectly charged to the departmental indirect cost pool. We found that the majority of the inaccurate time charges related to the activities of managers and supervisors as a whole or employees who participated in meetings, training, or other activities that could not be identified to a specific benefiting program.

For example, the Information Services Bureau charged 100 percent of the time of its managers and supervisors to the departmental indirect cost pool. However, the employees that worked for these managers did not charge any time to the departmental indirect cost pool. Instead, the employees charged the benefiting programs, primarily welfare-related programs. Therefore, the managers' time should have been charged to the same programs as their subordinates instead of the departmental indirect cost pool. DSS' *Time Reporting Handbook* states that managers and supervisors shall review all time reports for accuracy and substantiate the rationale used to determine the benefiting program for cost allocation purposes.<sup>2</sup>

As a result of our review, DSS initiated a number of corrective actions to correct these deficiencies. For the components in the Administration Division, DSS officials provided documentation to support adjustments to the accounting records to reverse the incorrect charges for the period of July 1997 through April 1998. In addition, these components no longer charge unallowable costs to SSA programs through the departmental indirect cost pool. DSS officials also informed us that the Fiscal Systems and Accounting Branch is in the process of updating the *Time Reporting Handbook*.

We recommend that DSS: (1) refund \$3,321,401 for indirect costs that were charged to the departmental indirect cost pool but did not benefit SSA programs, (2) direct the PC Support Unit and Welfare Program Reform to properly charge costs to the benefiting programs rather than to the departmental indirect cost pool, (3) determine the propriety of indirect costs charged to the departmental indirect cost pool by other DSS components and refund any unallowable costs to SSA, and (4) provide training to all DSS personnel in time reporting policies and procedures.

### ***Office of Community Relations***

The Office of Community Relations is responsible for community liaison and outreach services. DSS charged 100 percent of the costs for the Office of Community Relations to the departmental indirect cost pool during the period of July 1996 through March 1998. Based on our review, we determined that the activities of the Office of Community Relations primarily benefited non-SSA programs. Nevertheless, through the departmental indirect cost pool, SSA was improperly charged for a portion of these costs.

As a result, SSA reimbursed DSS for \$212,719 in unallowable costs for July 1996 through March 1998. We believe the Office of Community Relations should perform time reporting to more equitably distribute its costs to the benefiting programs. DSS officials agreed and directed the Office of Community Relations to perform time reporting effective April 1998. We recommend that DSS: (1) refund \$212,719 for indirect costs related to the Office of Community Relations, and (2) review the departmental indirect cost pool for inappropriate charges on a periodic basis.



## ***Program Divisions***

For the period of July 1994 through June 1997, program divisions charged direct costs totaling \$142,827 to the departmental indirect cost pool. The program divisions consisted of the Welfare Programs Division, Community Care Licensing Division, Children and Family Services Division, and Disability and Adult Programs Division. Program divisions may not charge direct costs to the departmental indirect cost pool.<sup>3</sup> These costs should have been charged directly to the benefiting programs. This condition was also reported in the prior audit for FYs 1992 and 1993.<sup>1</sup>

Based on the approved cost allocation plan, SSA reimbursed DSS for \$54,514 of direct costs from the program divisions that were included in the departmental indirect cost pool. However, we determined that \$21,430 of these indirect costs were allowable as direct costs to SSA programs. Therefore, the net overcharge to SSA was \$33,084 in unallowable costs for July 1994 through June 1997. We recommend that DSS: (1) refund \$33,084 for direct costs of program divisions that were incorrectly charged as indirect costs, and (2) review the departmental indirect cost pool for inappropriate charges on a periodic basis.

## ***Public Inquiry and Response Unit***

The Public Inquiry and Response Unit, a component within the Administration Division, is responsible for welfare-related inquiries, complaints, and appeals. We found that this unit incorrectly charged \$32,757 of supplies and equipment to the departmental indirect cost pool during the period of July 1996 through April 1998. These items were used for the normal operations of the Public Inquiry and Response Unit and should have been charged directly to the unit's overhead account for allocation to its benefiting functions. Use of the departmental indirect cost pool resulted in unallowable charges to SSA programs.

DSS accounting officials agreed that the supplies and equipment used for the normal operations of a support component should be charged to the component's overhead account in accordance with the approved cost allocation plan. Through the departmental indirect cost pool, SSA was improperly charged for \$13,469 of the supplies and equipment costs for the Public Inquiry and Response Unit for July 1996 through April 1998. We recommend that DSS: (1) refund \$13,469 for indirect costs related to the Public Inquiry and Response Unit, and (2) review the departmental indirect cost pool for inappropriate charges on a periodic basis.

## ***Other Support Components***

During our review of the departmental indirect cost pool, we identified a number of weaknesses in the time reporting by support components within the Information Systems Division. Specifically, we found:

- The Information System Branch and Information Technology Planning Bureau did not have adequate supporting documentation for its time charges to the departmental indirect cost pool. Therefore, we were unable to determine if the costs charged to the departmental indirect cost pool were reasonable.
- Employees were not included in the correct organizational reporting unit for time reporting purposes. These errors resulted in incorrect charges to the accounting records.
- The Information Technology Planning Bureau charged costs to the departmental indirect cost pool based on estimated rather than actual time charges. Employees relied on estimates because the use of time reports had been discontinued within the bureau.

DSS officials concurred with our finding and stated that corrective action had been initiated. We recommend that DSS implement proper time reporting procedures so that costs are equitably distributed to the benefiting programs.

## **PERSONNEL AND OTHER COSTS**

For the period October 1996 through April 1998, we found that DSS claimed unallowable personnel and other costs totaling \$208,455 for activities that did not benefit SSA's programs. Details are provided below.

### ***Information Technology Projects Bureau***

DSS charged ineligible building lease costs related to space that did not house employees dedicated to SSA programs. The building<sup>4</sup> is occupied by the Information Technology Projects Bureau, a component within the Information Systems Division. This bureau includes the MIDAS Project Section, which performs activities that primarily benefit SSA programs. In September 1996, the MIDAS Project Section relocated to another building; however, DSS did not revise its method for allocating the costs to the benefiting programs. As a result, SSA reimbursed DSS for \$196,413 in unallowable costs for the period October 1996 through April 1998.

After the MIDAS Project Section moved to another location in September 1996, the lease costs for the new building were charged directly to SSA programs. However, DSS continued to charge the lease costs for the old building to the bureau's overhead account. These costs were allocated to programs based on employee time reports. Although lease costs should be charged in this manner, it is inappropriate to do so when the employees who benefited SSA programs are not located in the building. For October 1996 through April 1998, DSS charged a total of \$314,227 in building lease costs (including security and improvements) for the Information Technology Projects Bureau, of which \$196,413 were

---

<sup>4</sup> Located at 1700 9<sup>th</sup> Street in Sacramento, California.

allocated to SSA programs. We recommend that DSS: (1) refund \$196,413 for ineligible building lease costs, and (2) direct the Information Technology Projects Bureau to properly charge costs to the benefiting programs.

### ***Disability and Adult Programs Division***

DSS charged ineligible personnel and other costs that benefited non-SSA programs due to organizational changes within the Disability and Adult Programs Division. In February 1997, the Adult Services Division was eliminated and merged into the Disability Evaluation Division. This division was renamed the Disability and Adult Programs Division. Although the activities of the former Disability Evaluation Division primarily benefited SSA programs, the activities of the former Adult Services Division did not.

We found that DSS did not account for the organizational changes and make all of the necessary adjustments to its accounting system until August 1997. As a result, SSA reimbursed DSS for \$12,042 in unallowable costs for the period of February through July 1997. These costs were improperly allocated to SSA programs by the Office of the Deputy Director, Disability and Adult Programs Division. We recommend that DSS refund \$12,042 for ineligible personnel and other costs related to the Disability and Adult Programs Division.

### ***Other Support Components***

During our review of personnel and other costs, we identified a number of weaknesses in the time reporting by support components within the Disability and Adult Programs Division and Information Systems Division. Specifically, we found:

- The Systems Operation and Policy Bureau, a component within the Disability and Adult Programs Division, performed activities that benefited both State and SSA programs. This also applied to most employees within the MIDAS Project Section, a component within the Information Systems Division. However, we found that these components charged 100 percent of their time to SSA programs.
- The Administrative Support/Program Services Bureau is a component within the Disability and Adult Programs Division. This bureau charged 95 percent of its time to SSA programs and 5 percent to State programs. We were unable to determine if these percentages were equitable because the applicable time study was performed over 4 years ago.
- The Systems Operation and Policy Bureau and Administrative Support/Program Services Bureau performed time reporting on a quarterly basis. We determined that the percentage of employees' time devoted to the benefiting programs varied each month because of the nature of their support activities. Therefore, these components should time report monthly rather than quarterly.

DSS officials concurred with our finding and initiated corrective action during the audit. We recommend that SSA require DSS to implement proper time reporting practices so that costs are equitably distributed to the benefiting programs.

## **MEDICAL COSTS**

For FYs 1995 and 1996, we found that DSS claimed unallowable medical costs totaling \$192,001 for doctors who were paid twice to review the same medical records and vendors who received duplicate payments for medical services. Details are provided below.

### ***Doctors Were Paid Twice to Review Medical Records***

DSS claimed excessive medical costs for doctors who were paid twice to review medical records during FYs 1995 and 1996. We found that CADDs paid doctors a fee of \$20 to review medical records in preparation for consultative examinations to determine the eligibility of the claimants. In addition, CADDs paid doctors for the full authorized amount to perform medical services in which the review of records was already included as part of the fee. This occurred because CADDs employees misinterpreted existing procedures for the processing of medical claims. As a result, CADDs reimbursed doctors for \$132,520 in medical costs to which they were not entitled.

Disability claims under the DI and SSI programs are processed through MIDAS, which provides separate transaction codes for a variety of medical services. CADDs employees are required to enter the proper codes into MIDAS to reflect the medical services performed by the doctors. Although one code, 99080REW, applies to the “review of records,” it should be used for missed appointments only. DSS procedures state that “a maximum fee of \$20 may be paid for review of records on no-show appointments. This is a one-time payment and cannot be made a second time on the same claimant to the same provider.”<sup>5</sup>

CADDs employees had paid the \$20 fee for no-show appointments in addition to the applicable fee for medical services, resulting in doctors who were paid twice to review the same medical records. Using a MIDAS computer printout of medical costs for FYs 1995 and 1996, we identified 6,626 overpayments totaling \$132,520 where doctors were paid: (1) the \$20 fee for no-show appointments for reviewing medical records; and (2) the full authorized amount for performing medical services, including the review of medical records.

We recommend that DSS refund \$132,520 for doctors who were paid twice to review medical records. We also recommend that DSS clarify its procedures for the reimbursement of doctors’ fees related to the review of medical records.

---

<sup>5</sup> DSS’ Medical Services Manual, Section 701-4.

## ***Vendors Received Duplicate Payments for Medical Services***

DSS claimed excessive medical costs for vendors<sup>6</sup> who received duplicate payments for medical services during FYs 1995 and 1996. This occurred, in part, because CADDs did not establish adequate controls over the processing of transactions for payment of medical services. In addition, CADDs employees ordered medical records for claimants even though SSA had already ordered the same information. Using a MIDAS computer printout of medical costs for FYs 1995 and 1996, we selected a random sample of 100 medical services billed to SSA during the period. Of this amount, our review disclosed 20 duplicate payments for medical services. Based on a statistical sampling projection, we determined that CADDs reimbursed vendors for at least \$59,481 in duplicate payments to which they were not entitled (see Appendix E).<sup>7</sup>

For 13 of the 20 duplicate payments in our sample, we found that CADDs employees made clerical errors in the processing of transactions for payment of medical services. These errors went undetected because CADDs placed a low priority on the identification of duplicate payments through exception reports. MIDAS generates exception reports which identify potential duplicate payments involving the same vendor, claimant, and medical services. CADDs distributes the exception reports to its branch offices for review prior to issuance of payments to vendors. However, there are no procedures in place to ensure that the exception reports are reviewed and discrepancies are resolved.

For 7 of the 20 duplicate payments in our sample, we found that CADDs employees ordered medical records for the claimants even though SSA had already ordered such information. When claimants apply for disability benefits, SSA generally requests that the claimants provide medical records from the treating physician(s). SSA submits the claimant's case folder to CADDs and annotates that the medical records have been requested. Nevertheless, CADDs employees largely ignored SSA's prior request and routinely ordered the medical records to ensure timely receipt of the information. Therefore, the identical medical records were requested and submitted twice from the same medical providers, resulting in duplicate payments.

We recommend that DSS refund \$59,481 for vendors who received duplicate payments for medical services. We also recommend that DSS: (1) withhold payments for medical services to vendors until the branch offices certify that exception reports have been reviewed and any discrepancies were resolved, and (2) contact medical providers prior to ordering medical records for claimants to confirm receipt of SSA's request and avoid a separate request for the same information.

## **UNLIQUIDATED OBLIGATIONS**

---

<sup>6</sup> Vendors include doctors, hospitals, interpreters, and other medical providers.

<sup>7</sup> The \$59,481 represents a conservative estimate of duplicate payments to vendors. We are 90 percent confident that the amount of duplicate payments is between \$59,481 and \$115,481. We are also 95 percent confident that the actual amount is at least \$59,481.

Unliquidated obligations are cost commitments for goods or services that have not been paid. We found that CADDs overstated the amount of unliquidated obligations needed for FYs 1995 and 1996 by \$5,157,597. This occurred because CADDs: (1) used ineffective methods and incorrect information to estimate the amount of unliquidated obligations, and (2) did not review the validity of its reported obligations after the end of the FY. Since DSS committed more funds than needed to satisfy these obligations, SSA was unable to use the resources for other needs in the administration of the disability program. We noted that DSS subsequently deobligated \$4,290,107 to reduce its unsupported obligations to \$867,490 as of December 31, 1997. This has been a recurring problem and was reported in the prior audits for FYs 1987 through 1989<sup>8</sup> and FYs 1992 through 1993.<sup>1</sup>

SSA's procedures state that valid unliquidated obligations should be supported by documents and records describing the nature of obligations and supporting amounts recorded. State agencies should also review unliquidated obligations at least once each month and cancel those which are no longer valid.<sup>9</sup> In addition, State agencies are required to provide narrative reports on the status of unliquidated obligations with the quarterly Form SSA-4513. These unliquidated obligations consist of medical, indirect, personnel, and other costs. The following table summarizes the unliquidated obligations in excess of supporting costs at the end of FYs 1995 and 1996.

<b>Unliquidated Obligations in Excess of Supporting Costs</b>			
<b><u>Category</u></b>	<b><u>FY 1995</u></b>	<b><u>FY 1996</u></b>	<b><u>Both FYs</u></b>
Medical Costs	\$1,510,001	\$1,202,988	\$2,712,989
Indirect Costs	\$449,019	\$823,782	\$1,272,801
Other Costs	\$441,714	\$943,344	\$1,385,058
Personnel Costs	\$34,629	(\$247,880)	(\$213,251)
<b>TOTAL</b>	<b><u>\$2,435,363</u></b>	<b><u>\$2,722,234</u></b>	<b><u>\$5,157,597</u></b>

### **Medical Costs**

CADDs used incorrect information to estimate its unliquidated obligations for medical costs. We found that CADDs employees relied on the "Monthly Medical Encumbrance Report," which included all encumbrances for medical costs established during the FY plus medical appointments scheduled in the next FY. Because this report combined the

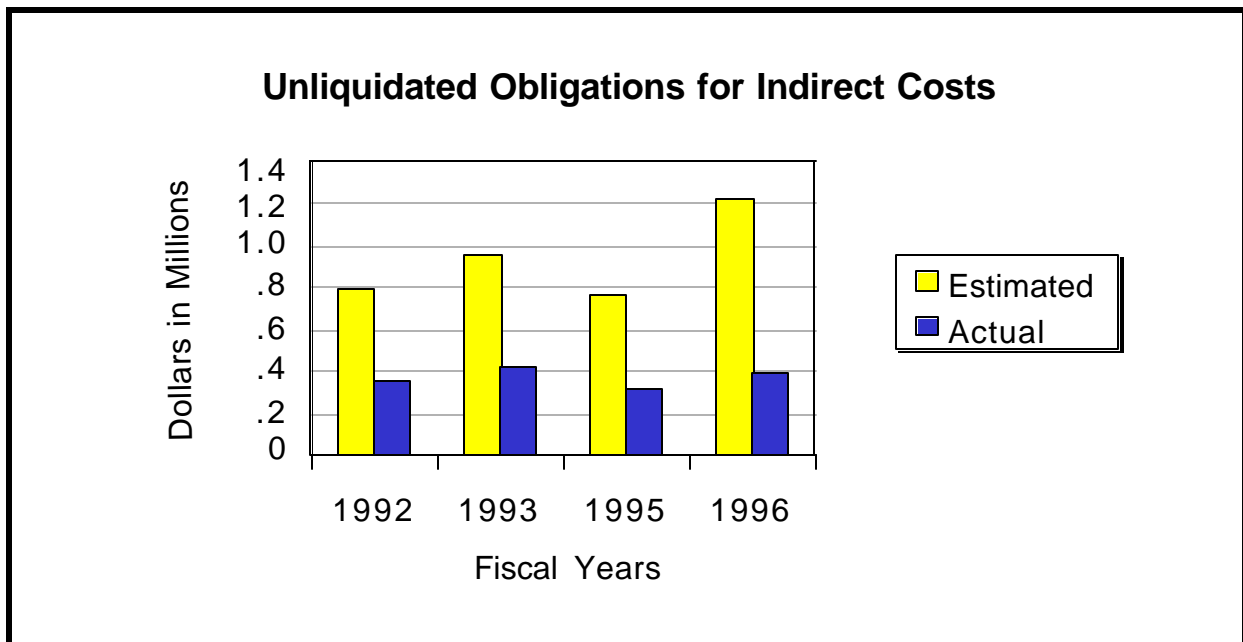
<sup>8</sup> "State of California, Department of Social Services, Disability Evaluation Division, Disability Determination Program, Administrative Cost Audit for the Fiscal Years Ended September 30, 1987, 1988, and 1989" (A-09-90-00117), HHS/OIG, dated January 1992.

<sup>9</sup> POMS, Section DI 39506.812.

medical costs for two different FYs, the amount of unliquidated obligations was overstated by \$1,510,001 for FY 1995 and \$1,202,988 for FY 1996. For example, at the end of FY 1995, CADDs estimated its unliquidated obligations for medical costs at \$4,996,309. However, we determined the amount needed was only \$3,486,308,<sup>10</sup> resulting in excess unliquidated obligations of \$1,510,001.

**Indirect Costs**

CADDs applied ineffective methods to determine its unliquidated obligations for indirect costs. Because the State’s accounting system did not provide a record of unliquidated obligations at the end of the Federal FY, CADDs employees estimated the amount of obligations based on the total encumbrances for indirect costs plus 17 percent of the unliquidated obligations for personnel costs. This methodology did not produce accurate estimates. For example, at the end of FY 1996, CADDs estimated its unliquidated obligations for indirect costs at \$1,220,406. However, we determined the amount needed was only \$396,624,<sup>11</sup> resulting in excess unliquidated obligations of \$823,782. In the prior audit, HHS/OIG reported that CADDs had used the same methodology to estimate its unliquidated obligations for FYs 1992 and 1993.<sup>1</sup> The following chart illustrates the estimated and actual indirect costs for the period covered by the current and prior audit.



**Personnel and Other Costs**

<sup>10</sup> Based on actual expenditures of \$3,469,333 from September 30, 1995 to December 31, 1997, plus open encumbrances of \$16,975 (as of November 11, 1997).

<sup>11</sup> Based on actual expenditures of \$328,361 from September 30, 1996 to December 31, 1997, plus open encumbrances of \$68,263.

CADDS used incorrect information to determine its unliquidated obligations for personnel and other costs. For FYs 1995 and 1996, the amount of unliquidated obligations for other costs was overstated by \$1,385,058 because CADDS employees primarily relied on historical data to estimate the amount of future obligations. In addition, the amount of unliquidated obligations for personnel costs was understated by \$213,251 due, in part, to unforeseen expenditures related to the processing of Drug Addict and Alcoholic claims.

### ***Summary***

In total, the amount of unliquidated obligations needed for FYs 1995 and 1996 was overstated by \$2,435,363 and \$2,722,234, respectively. CADDS was aware that the unliquidated obligations had been overestimated and, therefore, started to deobligate these amounts after the end of FYs 1995 and 1996. As of December 31, 1997, we determined that \$867,490 in unliquidated obligations, consisting of \$610,209 from FY 1995 and \$257,281 from FY 1996, were not supported. We recommend that DSS deobligate the remaining \$867,490 in unsupported obligations. We also recommend that DSS: (1) improve the methods used to record unliquidated obligations so that the recorded obligations more accurately reflect the amounts needed, and (2) ensure that the unliquidated obligations are reviewed on a monthly basis after the end of the FY.



---

# CONCLUSIONS AND RECOMMENDATIONS

---

We concluded that DSS had overstated its disbursements by \$3,981,129 for the period of July 1994 through April 1998. We also concluded that CADDSS had overstated its unliquidated obligations by \$5,157,597 for FYs 1995 and 1996, of which \$867,490 remained outstanding as of December 31, 1997. This occurred, in part, due to: (1) incorrect time charges for allocating indirect costs, (2) ineffective methods for estimating unliquidated obligations, and (3) inadequate controls for reimbursing medical costs. As a result, DSS overreported its total obligations to SSA by \$9,138,726 for the period under audit.

We recommend that SSA require DSS to:

## INDIRECT COSTS

1. Refund \$3,321,401 for indirect costs that did not benefit SSA programs but were charged to the departmental indirect cost pool by the Administration Division, Information Systems Division, and Director's Office.
2. Refund \$212,719 for indirect costs related to the Office of Community Relations.
3. Refund \$33,084 for direct costs of program divisions that were incorrectly charged as indirect costs.
4. Refund \$13,469 for indirect costs related to the Public Inquiry and Response Unit.
5. Determine the propriety of indirect costs charged to the departmental indirect cost pool by other DSS components and refund any unallowable costs to SSA.
6. Direct the PC Support Unit and Welfare Program Reform to properly charge costs to the benefiting programs rather than to the departmental indirect cost pool.
7. Provide training to all DSS personnel in time reporting policies and procedures.
8. Review the departmental indirect cost pool for inappropriate charges on a periodic basis.

## **PERSONNEL AND OTHER COSTS**

9. Refund \$196,413 for ineligible building lease costs for the Information Technology Projects Bureau.
10. Refund \$12,042 for ineligible personnel and other costs related to the Disability and Adult Programs Division.
11. Direct the Information Technology Projects Bureau to properly charge costs to the benefiting programs.
12. Implement proper time reporting practices so that costs are equitably distributed to the benefiting programs.

## **MEDICAL COSTS**

13. Refund \$132,520 for doctors who were paid twice to review medical records.
14. Refund \$59,481 for vendors who received duplicate payments for medical services.
15. Clarify procedures for the reimbursement of doctors' fees related to the review of medical records.
16. Withhold payments for medical services to vendors until the branch offices certify that exception reports have been reviewed and any discrepancies were resolved. Also, contact medical providers prior to ordering medical records for claimants to confirm receipt of SSA's request and avoid a separate request for the same information.

## **UNLIQUIDATED OBLIGATIONS**

17. Deobligate \$867,490 in unliquidated obligations that were not supported by valid documentation.
18. Improve the methods used to record unliquidated obligations so that the recorded obligations more accurately reflect the amounts needed and ensure that the unliquidated obligations are reviewed on a monthly basis after the end of the FY.

## **AGENCY COMMENTS AND OIG RESPONSE**

DSS generally concurred with our findings, but stated that it was unable to confirm the accuracy of reported total overcharges without completing a review of the documentation supporting those amounts. SSA found the draft report to be valid and reasonable and supported the recommendations. We are available to discuss the rationale and methodology used to quantify the effect of our findings with DSS and SSA officials as

needed. See below for a detailed discussion of DSS' comments and our responses for each of the four findings. The full text of DSS' comments is shown in Appendix F.

## **INDIRECT COSTS**

### **DSS' Comments**

DSS concurred that costs were incorrectly charged to the departmental indirect cost pool. However, DSS stated that it was unable to agree with the total overcharges without completing a review of the documentation supporting those amounts. Prospectively, DSS stated that it is taking three actions to prevent future occurrences of similar problems. First, it has issued new time reporting instructions, effective July 1997. Second, it is establishing a training program to ensure that time reporting is properly completed. Third, it will develop additional monitoring tools to evaluate the use of the departmental indirect cost pool.

### **OIG Response**

We provided a "Discussion Draft Report" to DSS on July 27, 1998. In addition, we discussed our findings with DSS officials during the course of our audit and at the exit conference on August 12, 1998. Nonetheless, we are available to provide the supporting documentation and discuss the rationale and methodology used to arrive at these amounts with DSS officials as needed.

## **PERSONNEL AND OTHER COSTS**

### **DSS' Comments**

DSS concurred with our recommendations and agreed to take corrective actions. Again, it did not concur with the amount of total overcharges without completing a review of the documentation supporting those amounts.

### **OIG Response**

We are available to provide the supporting documentation and discuss the method used to quantify the effect of this finding with DSS officials.

## **MEDICAL COSTS**

### **DSS' Comments**

DSS partially concurred with our recommendations to refund \$132,520 and \$59,481 in medical costs. Regarding the first recommendation, DSS stated that while both the CFR and SSA instructions were silent on the issue, it has been a long-standing practice to pay an additional fee to consultative examiners in connection with requests from the Office of Hearings and Appeals (OHA). DSS contends that the extra fees for OHA requests are a legitimate business expense because OHA appeal cases involve significantly more medical evidence for review than initial determinations or reconsiderations. Based on its own sample review, DSS asserts that 87.3 percent of the cases were OHA appeals and, therefore, only \$16,828 of the \$132,520 should be refunded to SSA.

Concerning the second recommendation, DSS asserts that only \$38,663 of the \$59,481 of duplicate payments should be refunded. This is the amount that corresponds to duplicate payments not involving requests from both SSA and DSS. DSS believes it should not refund duplicate payments resulting from requests from both SSA and DSS because of the difficulties encountered in coordinating the ordering of medical records.

DSS concurred with the third recommendation to clarify its procedures for the reimbursement of doctors' fees related to the review of medical records. It partially concurred with the fourth recommendation related to the processing of exception reports for ordered medical records. DSS agreed with the need to: (1) review its practices for handling exception reports, and (2) contact medical sources when it appears that a request for medical records is already pending. However, DSS disagreed with our proposal to withhold payments for medical services until its branch offices certify that the questioned transactions on the exception reports were resolved. DSS stated that this could create payment disruption to hundreds of vendors whose records are not in question, yet appear on the same tape.

### **OIG Response**

We found no guidance regarding the practice of paying additional fees to medical examiners for reviewing records for OHA cases. In addition, DSS provided no documentation indicating that SSA approved or was aware of the additional fees. Therefore, we found no basis for SSA to reimburse DSS for fees paid in excess of amounts allowed under current guidelines.

Our position regarding duplicate payments for medical records is that DSS should not pay for the same medical evidence more than once. As noted in the report, SSA offices annotated case folders when the medical records were ordered and it was CADDs' responsibility not to reorder those records. Therefore, DSS should refund the \$59,481 in duplicate payments made to vendors.

Regarding our proposal to withhold payments for questionable reimbursements that appear on exception reports, our intent was only to withhold payments for the questionable transactions. We agree that payments to other vendors should not be delayed.

## **UNLIQUIDATED OBLIGATIONS**

### **DSS' Comments**

DSS concurred with these recommendations. DSS stated that it has already implemented some improved reporting mechanisms to allow it to more accurately record unliquidated obligations. DSS added that it has significantly reduced the amount of outstanding obligations and believes it has largely resolved the problems that led to this finding.

---

# OTHER MATTERS

---

## **ACCESS CONTROLS OVER MIDAS COMPUTER SYSTEM**

DSS needs to improve access controls over MIDAS to prevent misuse through unauthorized transactions. MIDAS is the computer system for processing disability claims under the DI and SSI programs in the State of California. Separation of duties is maintained through the use of different user classifications and group profiles. The user classifications and group profiles are assigned to individuals to restrict their access to specific operations within MIDAS.

During our review, we identified weaknesses in existing controls over employee access to MIDAS. Although DSS officials agreed to implement a compensating control, we believe that additional controls are necessary to reduce the risk of unauthorized loss or modification of data. Due to the sensitive and confidential nature of this matter, we will report our findings and recommendations to improve access controls over MIDAS in a separate management letter.

# **APPENDICES**



# ACRONYMS

---

CADDS	California Disability Determination Services
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
DI	Disability Insurance
DSS	California State Department of Social Services
FY	Fiscal Year
HHS	U.S. Department of Health and Human Services
MER	Medical Evidence of Record
MIDAS	Modernized Interim Disability Adjudication System
OHA	Office of Hearings and Appeals
OIG	Office of the Inspector General
OMB	Office of Management and Budget
POMS	Program Operations Manual System
SSA	Social Security Administration
SSI	Supplemental Security Income

## SUMMARY OF MONETARY RESULTS

FINDING	AMOUNT
The Administration Division, Information Systems Division, and Director's Office charged the costs of activities that did not benefit the Social Security Administration (SSA) programs to the departmental indirect cost pool for October 1994 through April 1998.	\$3,321,401
The Office of Community Relations charged indirect costs that benefited non-SSA programs to the departmental indirect cost pool for July 1996 through March 1998.	\$212,719
Program divisions incorrectly charged direct costs to the departmental indirect cost pool for July 1994 through June 1997.	\$33,084
The Public Inquiry and Response Unit charged supplies and equipment to the departmental indirect cost pool for July 1996 through April 1998.	\$13,469
The California State Department of Social Services (DSS) charged ineligible building lease costs for the Information Technology Projects Bureau for October 1996 through April 1998.	\$196,413
DSS charged ineligible personnel and other costs for the Disability and Adult Programs Division for the period of February through July 1997.	\$12,042
DSS claimed excessive medical costs for doctors who were paid twice to review medical records during Fiscal Years (FY) 1995 and 1996.	\$132,520
DSS claimed excessive medical costs for vendors who received duplicate payments for medical services during FYs 1995 and 1996.	\$59,481
DSS overstated the amount of unliquidated obligations needed for FYs 1995 and 1996. <sup>1</sup>	\$5,157,597
<b>TOTAL</b>	<b>\$9,138,726</b>

<sup>1</sup> After the end of FYs 1995 and 1996, DSS deobligated \$4,290,107 to reduce its unsupported obligations to \$867,490 as of December 31, 1997. Therefore, we recommend that DSS deobligate the remaining \$867,490 in unsupported obligations.

## THE CALIFORNIA STATE DEPARTMENT OF SOCIAL SERVICES REPORTED VS. ALLOWED OBLIGATIONS FOR FISCAL YEAR 1995

COSTS	DISBURSEMENTS			UNLIQUIDATED OBLIGATIONS			TOTAL OBLIGATIONS		
	REPORTED <sup>1</sup>	AUDIT ADJUSTMENTS	ALLOWABLE	REPORTED <sup>1</sup>	AUDIT ADJUSTMENTS	ALLOWABLE	REPORTED <sup>1</sup>	AUDIT ADJUSTMENTS	ALLOWABLE
PERSONNEL	\$81,837,873	\$0	\$81,837,873	\$0	\$0	\$0	\$81,837,873	\$0	\$81,837,873
MEDICAL	29,663,748	(96,000)	29,567,748	627,184	(610,209)	16,975	30,290,932	(706,209)	29,584,723
INDIRECT	14,031,579	(871,597)	13,159,982	4,074	0	4,074	14,035,653	(871,597)	13,164,056
OTHER	<u>19,011,904</u>	<u>0</u>	<u>19,011,904</u>	<u>1,650</u>	<u>0</u>	<u>1,650</u>	<u>19,013,554</u>	<u>0</u>	<u>19,013,554</u>
TOTAL	<u>\$144,545,104</u>	<u>(\$967,597)</u>	<u>\$143,577,507</u>	<u>\$632,908</u>	<u>(\$610,209)</u>	<u>\$22,699</u>	<u>\$145,178,012</u>	<u>(\$1,577,806)</u>	<u>\$143,600,206</u>

<sup>1</sup> Per "State Agency Report of Obligations for SSA Disability Programs" (Form SSA-4513) as of December 31, 1997.

## THE CALIFORNIA STATE DEPARTMENT OF SOCIAL SERVICES REPORTED VS. ALLOWED OBLIGATIONS FOR FISCAL YEAR 1996

COSTS	DISBURSEMENTS			UNLIQUIDATED OBLIGATIONS			TOTAL OBLIGATIONS		
	REPORTED <sup>1</sup>	AUDIT ADJUSTMENTS	ALLOWABLE	REPORTED <sup>1</sup>	AUDIT ADJUSTMENTS	ALLOWABLE	REPORTED <sup>1</sup>	AUDIT ADJUSTMENTS	ALLOWABLE
PERSONNEL	\$83,268,488	\$0	\$83,268,488	\$0	\$0	\$0	\$83,268,488	\$0	\$83,268,488
MEDICAL	35,962,733	(96,000)	35,866,733	282,398	(257,281)	25,117	36,245,131	(353,281)	35,891,850
INDIRECT	16,123,803	(1,011,741)	15,112,062	68,263	0	68,263	16,192,066	(1,011,741)	15,180,325
OTHER	<u>14,660,704</u>	<u>0</u>	<u>14,660,704</u>	<u>282,139</u>	<u>0</u>	<u>282,139</u>	<u>14,942,843</u>	<u>0</u>	<u>14,942,843</u>
TOTAL	<u>\$150,015,728</u>	<u>(\$1,107,741)</u>	<u>\$148,907,987</u>	<u>\$632,800</u>	<u>(\$257,281)</u>	<u>\$375,519</u>	<u>\$150,648,528</u>	<u>(\$1,365,022)</u>	<u>\$149,283,506</u>

<sup>1</sup> Per "State Agency Report of Obligations for SSA Disability Programs" (Form SSA-4513) as of December 31, 1997.

## SAMPLING METHODOLOGY FOR DUPLICATE PAYMENTS

We obtained a listing from the Modernized Interim Disability Adjudication System identifying vendors (i.e., doctors, hospitals, interpreters and other medical providers) that appeared to have been paid more than once for the same medical service during Fiscal Years 1995 and 1996. Using a stratified sample design, we randomly sampled 100 of the 13,517 medical services purchased from the identified vendors. The 100 sampled items were selected from the following three strata: 30 medical evidence of records (MER), 30 interpreters, and 40 other medical costs. The following tables provide the details of our sampling results and statistical projection.

**Table 1 - Population Description**

Stratum	Population Count	Population Dollars
MER	7,588	\$133,933.33
Interpreters	3,376	\$89,377.48
Other Medical Costs	2,553	\$94,449.38
Total	13,517	\$317,760.19

**Table 2 - Sample Results**

Stratum	Sample Size	Error Count	Error Dollars
MER	30	14	\$239.47
Interpreters	30	0	\$0.00
Other Medical Costs	40	6	\$421.64
Total	100	20	\$661.11

**Table 3 - Statistical Projection of Sample Results**

Confidence Level	90 Percent
Point Estimate	\$87,481
Lower Limit	\$59,481
Upper Limit	\$115,481
Precision Amount	\$28,000
Precision Percent	32 Percent

---

# STATE OF CALIFORNIA COMMENTS

---

---

# MAJOR REPORT CONTRIBUTORS

---

Office of the Inspector General

William Fernandez, Director, Program Audits (West)

Jack H. Trudel, Deputy Director

James A. Sippel, Senior Auditor

Jimmie R. Harris, Senior Auditor

M. Leigh Banuelos, Auditor

For additional copies of this report, please contact the Office of the Inspector General's Public Affairs Specialist at (410) 966-9135. Refer to Common Identification Number A-09-97-51006.

# SSA ORGANIZATIONAL CHART

---