
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

July 2007

A-09-06-16129

AUDIT REPORT



Mission

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

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

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



SOCIAL SECURITY

MEMORANDUM

Date: July 31, 2007

Refer To:

To: Peter D. Spencer
Regional Commissioner
San Francisco

From: Inspector General

Subject: Administrative Costs Claimed by the California Disability Determination Services
(A-09-06-16129)

OBJECTIVE

The objectives of our audit of the California Disability Determination Services (CA-DDS) were to (1) evaluate internal controls over the accounting and reporting of administrative costs, (2) determine whether costs claimed were allowable and funds were properly drawn, and (3) assess limited areas of the general security controls environment.

BACKGROUND

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

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the Disability Insurance and Supplemental Security Income programs. Disability determinations under both Disability Insurance and Supplemental Security Income are performed by disability determination services (DDS) in each State or other responsible jurisdiction in accordance with Federal regulations.¹ 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.

¹ 20 Code of Federal Regulations (C.F.R.) §§ 404.1601 *et seq.* and 416.1001 *et seq.*

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's Automated Standard Application for Payment system to pay for program expenditures. Funds drawn down must comply with Federal regulations² and intergovernmental agreements entered into by the Department of the Treasury and States under the *Cash Management Improvement Act of 1990*.³ An advance or reimbursement for costs under the program must comply with Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the FY, each DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and unliquidated obligations.

CA-DDS is a component of the California Department of Social Services (DSS), Disability and Adult Programs Division. For Fiscal Years (FY) 2004 and 2005, CA-DDS had about 1,500 employees and an authorized budget of \$387 million for administrative costs. As of September 30, 2005, DSS reported total disbursements of \$375.7 million and unliquidated obligations of \$11.3 million.

RESULTS OF REVIEW

We found that CA-DDS had effective internal controls over the accounting and reporting of administrative costs and its general security control environment was effective. In addition, the costs claimed by CA-DDS were allowable and funds were properly drawn except for \$1,658,596 of charges to SSA programs. This occurred because DSS claimed reimbursement for unallowable indirect, personnel, and nonpersonnel costs. Specifically, DSS

- improperly allocated \$1,544,050 of State-wide indirect costs to SSA programs,
- paid medical consultants \$46,656 in unallowable costs,
- charged \$38,847 from components that did not benefit SSA, and
- paid \$29,043 in rental costs in excess of lease agreements.

² 31 C.F.R. § 205.1 *et seq.*

³ Public Law 101-453, 104 Stat. 1058, in part amending 31 U.S.C. §§ 3335, 6501 and 6503.

EXCESS STATE-WIDE INDIRECT COSTS ALLOCATED TO SSA PROGRAMS

DSS improperly charged State-wide indirect costs to SSA's programs. According to DSS personnel, this occurred because adjustments to the proposed State-wide costs were not made after the actual costs were approved. As a result, SSA reimbursed DSS \$1,544,050 of unallowable costs from July 2001 through June 2005 (see Table 1). Beginning in July 2005, DSS did properly adjust the proposed State-wide costs.

Period	Proposed State-wide Costs	Approved State-wide Costs	Difference	Unallowable State-wide Costs Allocated to SSA
July 2001 - June 2002	\$12,564,495	\$12,241,427	\$323,068	\$124,285
July 2002 - June 2003	\$11,698,346	\$13,282,647	(\$1,584,301)	(\$610,932)
July 2003 - June 2004	\$13,260,489	\$10,266,340	\$2,994,149	\$1,239,084
July 2004 - June 2005	\$15,712,098	\$13,701,267	\$2,010,831	\$791,613
July 2005 - June 2006	\$14,907,579	\$14,907,579	\$0	\$0
Total	\$68,143,007	\$64,399,260	\$3,743,747	\$1,544,050

State-wide indirect costs are expenditures for services, including accounting, auditing, budgeting, and payroll from the California Department of Finance (DOF), Office of the State Controller, and State Personnel board, that benefit all departments in the State. A State-wide indirect cost pool is used to allocate an equitable share of State-wide costs to all programs benefiting from these services. At the beginning of each State FY, DOF issues the proposed State-wide indirect costs to be used until the State-wide indirect costs are approved.

Beginning July 1998, DOF stopped notifying all State departments, in writing, of any revisions to the proposed State-wide indirect costs. Instead, DOF required that State departments review its website for any revisions to the proposed State-wide indirect costs. Because DSS employees did not review the DOF website, they were not aware of the subsequent adjustments to the proposed State-wide indirect costs. This finding was reported in our May 2003 audit of FYs 1999 and 2000. DSS refunded the excess costs and agreed with our recommendations to periodically review the DOF website for any revisions to the proposed State-wide indirect costs.⁴ As a result of our current audit, DSS advised us that it refunded the unallowable indirect costs.

UNALLOWABLE COSTS CLAIMED FOR MEDICAL CONSULTANTS

CA-DDS claimed unallowable costs paid to medical consultants. This occurred because of control weaknesses that allowed medical consultants to receive additional pay to which they were not entitled. As a result, we estimate that SSA reimbursed DSS \$46,656 of unallowable costs for October 2004 through September 2005 (see Appendix C).

⁴ *Audit of Administrative Costs Claimed by the California Disability Determination Services (A-09-02-22022).*

Medical consultants are employed by CA-DDS and receive a salary for their review of the medical aspects of disability claims. CA-DDS provides medical consultants an additional \$27 for each case closed over an established weekly minimum threshold (90 cases for a full-time medical consultant). To receive the additional payment, the medical consultants must complete and certify a *Case Closure Bonus Certification* form. The medical consultants then submit the certification and a log of their cases completed and closed to a supervisor for review and approval.

We found that the supervisory review and approval of the *Case Closure Bonus Certification* did not always detect (1) duplicate cases claimed, (2) instances in which medical consultants claimed extra cases without meeting their minimum thresholds, and (3) instances in which the number of extra cases claimed on the certification forms exceeded the number supported by the logs.

Because of the control weaknesses in the certification and approval process, we reviewed all payments made to medical consultants for extra cases closed for a 1-month period (July 2005). During that month, 15 of the 168 medical consultants received \$52,056 in bonus payments. Of these, CA-DDS overpaid \$4,698 to 11 medical consultants. In addition, 2 medical consultants were underpaid \$810 for 30 cases. As a result, we estimate CA-DDS overpaid the 11 medical consultants \$56,376 and underpaid the 2 medical consultants \$9,720 for October 2004 through September 2005 (see Appendix C).

IMPROPER CHARGES FROM COMPONENTS THAT DID NOT BENEFIT SSA

DSS improperly claimed nonpersonnel costs (for example, occupancy, equipment, communication, travel, and supplies) from components that did not benefit SSA's programs. This occurred because DSS employees erroneously coded these expenditures as CA-DDS costs. For our audit period, DSS charged \$69,981 in nonpersonnel costs from these components, of which we verified that \$38,847 was erroneously coded and charged to SSA's programs.

Applicable Federal guidance states that "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."⁵ SSA's procedures authorize the Agency to provide States with funding for all expenditures, direct or indirect, necessary to make disability determinations. Generally, any expenditures incurred for SSA's disability determination process are deemed essential and may be charged to the Agency.⁶

During our audit, we identified charges from the Children and Family Services Division, which is responsible for adoption services and overseeing the Child Welfare Service program. Also, we found charges from the Adult Programs and State Disability Programs Branches in the Disability and Adult Programs Division. The Adult Programs

⁵ Office of Management and Budget Circular A-87, Attachment A, C.3.a.

⁶ SSA, Program Operations Manual System (POMS), DI 39506.001.B.1.

Branch oversees State programs for the aged, blind, or disabled, and the State Disability Programs Branch develops, evaluates, and adjudicates Medicaid claims. Generally, these components' activities did not benefit SSA's programs.

OVERPAYMENT OF LEASE FOR CA-DDS BRANCHES

We found DSS had overpaid rental costs for three CA-DDS branches. This occurred because DSS employees did not ensure the rental payments made agreed with the amounts in the lease agreements. As a result, DSS claimed \$29,043 in unallowable rental costs for the Los Angeles East, Los Angeles South, and Sacramento branches.

The Los Angeles East and South branches are co-located in a privately owned building. These branches entered into one lease agreement with the lease amount divided equally and charged to their respective accounts. The total lease amount for these two branches during our review period was \$2,112,826. We found that DSS paid \$2,134,883. As a result, DSS overpaid \$22,057 in rental cost for the two branches.

The Sacramento branch is located in a privately owned building. Under the terms of its lease agreement, the total lease amount was \$1,588,892. We found that DSS paid \$1,595,878 and therefore overpaid \$6,986 in rental costs for the Sacramento branch.

CONCLUSION AND RECOMMENDATIONS

Our review disclosed that CA-DDS incorrectly charged costs to SSA programs. This occurred because DSS claimed reimbursement for unallowable indirect, personnel, and nonpersonnel costs. As a result, SSA reimbursed the CA-DDS for \$1,658,596 of unallowable costs.

We recommend that SSA:

1. Instruct DSS to refund \$1,544,050 of unallowable statewide indirect costs.
2. Instruct DSS to ensure it adjusts the proposed Statewide costs after the actual costs are approved.
3. Instruct DSS to refund \$46,656 of unallowable personnel costs paid to medical consultants or verify whether medical consultants' bonus payments were proper.
4. Instruct CA-DDS to improve its controls to prevent and detect improper payments made to medical consultants for cases closed in excess of their weekly minimum thresholds.
5. Instruct DSS to refund \$38,847 of unallowable nonpersonnel costs charged from components that did not benefit SSA's programs.

6. Instruct DSS to issue reminders to all employees on the proper method of charging nonpersonnel costs to SSA's programs.
7. Instruct DSS to refund \$29,043 of unallowable rental costs for the Los Angeles East, Los Angeles South, and Sacramento branches or submit documentation to support the payment of rent in excess of the lease agreements.
8. Instruct DSS to improve its controls to ensure that rental costs claimed do not exceed the amounts in the lease agreements.

AGENCY COMMENTS

SSA agreed with all our recommendations. DSS generally agreed with our findings and recommendations. However, it disagreed in part with the unallowable rental costs and Recommendations 7 and 8. Specifically, DSS stated it has the documentation we recommended it provide to support the payment of rent in excess of the lease agreements.

See Appendices D and E for the full text of SSA's and DSS' comments.

OIG RESPONSE

We are pleased that SSA agreed with all our recommendations. Regarding the unallowable rental costs, the San Francisco Regional Office should ensure the DSS documentation adequately supports the payment of rent in excess of the lease agreements.



Patrick P. O'Carroll, Jr.

Appendices

[APPENDIX A](#) – Acronyms

[APPENDIX B](#) – Scope and Methodology

[APPENDIX C](#) – Sampling Methodology, Results and Estimates

[APPENDIX D](#) – Social Security Administration Comments

[APPENDIX E](#) – California Disability Determination Services Comments

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

Acronyms

Act	<i>Social Security Act</i>
CA-DDS	California Disability Determination Services
C.F.R.	Code of Federal Regulations
DDS	Disability Determination Services
DOF	California Department of Finance
DSS	California Department of Social Services
FY	Fiscal Year
POMS	Program Operations Manual System
SSA	Social Security Administration
U.S.C.	United States Code

Scope and Methodology

SCOPE

We reviewed the administrative costs reported to the Social Security Administration (SSA) by the California Disability Determination Services (CA-DDS) on the *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for Federal Fiscal Years (FY) 2004 and 2005. As of September 30, 2005, CA-DDS reported the following disbursements and unliquidated obligations on its Forms SSA-4513.

Category	FY 2004	FY 2005
Disbursements		
Personnel Costs	\$106,091,158	\$111,114,952
Medical Costs	46,834,955	41,587,770
Indirect Costs	19,375,268	19,077,606
All Other Nonpersonnel Costs	15,881,044	15,764,820
Total Disbursements	188,182,425	187,545,148
Unliquidated Obligations	578,424	10,696,746
Total Obligations	\$188,760,849	\$198,241,894

To accomplish our objective, we:

- Reviewed applicable Federal laws and regulations, pertinent sections of SSA's Program Operations Manual System, and other criteria relevant to administrative costs claimed by CA-DDS and drawdowns of SSA program funds.
- Reviewed California Department of Social Services' (DSS) policies and procedures related to personnel, medical, indirect, and all other nonpersonnel costs.
- Interviewed employees from the SSA regional office, DSS, CA-DDS.
- Reviewed the Single Audit of the State of California for the FY ended June 30, 2002.
- Reviewed the corrective actions DSS took on our May 2003 *Audit of Administrative Costs Claimed by the California Disability Determination Services (A-09-02-22022)*.
- Obtained an understanding of the internal control structure to plan the audit and to determine the nature, timing, and extent of the tests to be performed.
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures.

- Examined the administrative costs incurred and claimed by DSS for personnel, medical, indirect, and all other nonpersonnel costs during FYs 2004 and 2005.
- Reconciled the accounting records to the administrative costs reported by DSS on the Forms SSA-4513 for FYs 2004 and 2005.
- Selected a random sample of personnel, medical, and all other nonpersonnel costs.
- Verified indirect costs for FYs 2004 and 2005 based on the approved indirect cost allocation plan.
- Conducted a limited examination of CA-DDS' general security controls environment.¹

We determined the electronic data used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the electronic data by reconciling them with the costs claimed on the Form SSA-4513. We also conducted detailed audit testing on selected data elements from the electronic files.

We performed audit work at DSS and CA-DDS in Sacramento, California, and at the San Francisco Regional Office in Richmond, California. We also performed audit work at two CA-DDS branch offices in Sacramento and Oakland, California. We conducted fieldwork between August 2006 and April 2007. We conducted our audit in accordance with generally accepted government auditing standards.

SAMPLING METHODOLOGY

Our sampling methodology included the three general areas of costs as reported on Form SSA-4513: (1) personnel, (2) medical, and (3) all other nonpersonnel costs. We obtained computerized data from DSS and CA-DDS for FYs 2004 and 2005 for statistical sampling.

Personnel Costs

We reviewed a random sample of 50 personnel and 50 medical consultant transactions for 1 month in FY 2005. We tested payroll records to ensure CA-DDS accurately paid its employees and adequately supported these payments.

¹ Our review of general controls was limited to an assessment of the physical access security controls and the CA-DDS security plan. Our Fiscal Year 2007 Financial Statement Audit also includes a review of the CA-DDS general computer controls. Any findings related to this review will be reported in a separate management letter to SSA.

Medical Costs

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

All Other Nonpersonnel Costs

We reviewed 100 all other nonpersonnel costs items (50 items from each FY) using a stratified random sample. Before selecting our sample, we excluded \$1,746,576 from our population that we reviewed separately. We excluded these items because those costs could not be clearly identified with specific invoices that can be associated with the CA-DDS or other benefiting component. We then sorted the remaining transactions into the following categories: (1) Occupancy (less Occupancy-Rent), (2) Contracted Costs, (3) Electronic Data Processing Maintenance, (4) New Electronic Data Processing Equipment, (5) Equipment, (6) Communications, (7) Applicant Travel, (8) DDS Travel, (9) Supplies, and (10) Miscellaneous. We then distributed the 50 sample items between these categories based on the proportional distribution of all other nonpersonnel costs for each year. In addition, we reviewed all transactions for rental costs for each year.

Sampling Methodology, Results and Estimates

MEDICAL CONSULTANTS

We obtained a list of individuals employed by the California Disability Determination Service (CA-DDS). From this list, we identified a population of 168 medical consultants, of which 15 received additional pay in the randomly selected month of July 2005. The 15 medical consultants received the additional pay for cases closed over their established weekly minimum threshold.

For each of the 15 medical consultants, we obtained payroll records, personnel forms, and other supporting documentation to determine whether the amounts paid were accurate and valid. We found that 11 medical consultants were overpaid \$4,698 because of (1) duplicate cases claimed, (2) instances in which medical consultants claimed extra cases but did not meet their minimum thresholds, and (3) instances in which the number of extra cases medical consultants claimed on their certification forms exceeded the number supported by their logs. In addition, two medical consultants were underpaid \$810 because extra cases completed were not included for payment on the claim forms.¹

We estimate that the CA-DDS overpaid the 11 medical consultants \$56,376 and underpaid the 2 medical consultants \$9,720 for October 2004 through September 2005. The following tables provide the details of our audit results and estimates.

Table 1 - Annual Estimate for Overpayments

Type of Error	Number of Medical Consultants ²	Sample Results		Annual Estimates	
		Number of Cases	Overpaid amount	Number of Cases	Overpaid Amount
Duplicates	10	110	\$2,970	1,320	\$35,640
Threshold Not Met	2	44	\$1,188	528	\$14,256
Not Documented	2	20	\$540	240	\$6,480
Total	11	174	\$4,698	2,088	\$56,376

Table 2 - Annual Estimate of Underpayments

Type of Error	Number of Medical Consultants	Sample Results		Annual Estimates	
		Number of Cases	Overpaid amount	Number of Cases	Underpaid Amount
Unclaimed	2	30	\$810	360	\$9,720

¹ One medical consultant had an overpayment and an underpayment.

² These errors are not mutually exclusive. Three medical consultants had multiple errors: one medical consultant had duplicates and instances in which the extra cases claimed were not documented, and two medical consultants had duplicates and instances in which the minimum threshold was not met.

Social Security Administration Comments



SOCIAL SECURITY

MEMORANDUM

Date: July 13, 2007

Refer To: S2D9G4

To: Inspector General

From: Regional Commissioner
San Francisco

Subject: Audit of Administrative Costs Claimed by the California Disability Determination Services (A-09-06-16129)--REPLY

Thank you for the opportunity to review the draft report of your audit of the California Disability Determination Services. Per your request, we are providing an attachment with specific written comments for each of the eight recommendations contained in the draft report.

We greatly appreciate the work performed by the OIG staff in this region. They display consistent dedication to improving the fiscal efficiency of our DDSs.

If you have any questions regarding our comments, please call me. If your staff has any questions, they may call Gus Villalobos in the Center for Disability at (510) 970-8297.

Peter D. Spencer

Attachment

Regional Office Comments on the California DDS Draft Audit Report

Recommendation 1: Instruct DSS to refund \$1,544,050 of unallowable statewide indirect costs.

Comment: We agree with this recommendation.

Recommendation 2: Instruct DSS to ensure it adjusts the proposed statewide costs after the actual costs are approved.

Comment: We agree with this recommendation.

Recommendation 3: Instruct DSS to refund \$46,656 of unallowable personnel costs paid to medical consultants' or verify whether medical consultants' bonus payments were proper.

Comment: We agree with the auditor finding. We would like to see the State response before deciding on a reasonable resolution to the finding.

Recommendation 4: Instruct the California DSS to improve its controls to prevent and detect improper payments made to medical consultants for cases closed in excess of their weekly minimum thresholds.

Comment: We agree with this recommendation:

Recommendation 5: Instruct DSS to refund \$38,847 of unallowable non-personnel costs charged from components that did not benefit SSA's programs.

Comment: We agree with this recommendation.

Recommendation 6: Instruct DSS to issue reminders to all employees on the proper method of charging non-personnel costs to SSA's programs.

Comment: We agree with this recommendation.

Recommendation 7: Instruct DSS to refund \$29,043 of unallowable rental costs for the Los Angeles East, Los Angeles South, and Sacramento branches or submit documentation to support the payment of rent in excess of the lease agreements.

Comment: We agree with this recommendation.

Recommendation 8: Instruct DSS to improve its controls to ensure that rental costs claimed do not exceed the amounts in the lease agreements.

Comment: We agree with this recommendation.

California Disability Determination Services
Comments

DEPARTMENT OF SOCIAL SERVICES

144 L Street, Sacramento, CA 95834



July 19, 2007

Mr. Patrick P. O'Carroll, Jr.
Inspector General
SSA-OIG Office of Audit
6401 Security Boulevard
Suite 300, Allmeyer Building
Baltimore, Maryland 21235-0001

Dear Mr. O'Carroll:

**SUBJECT: AUDIT OF ADMINISTRATIVE COSTS CLAIMED BY THE CALIFORNIA
DISABILITY DETERMINATION SERVICES (A-09-06-16129)**

This is in response to your June 14, 2007 letter which transmitted the draft report for the above referenced audit and requested comments from the California Department of Social Services within 30 days.

The audit was very comprehensive and the report contains several constructive suggestions for improving our operations. We sincerely appreciate the professional conduct of your audit staff and the opportunities they have provided our Department to discuss their findings, review pertinent documents, and to provide additional information and comments.

If you have any questions regarding our comments, please do not hesitate to contact me at (916) 657-2598, or have your staff contact Mr. Joseph M. Carlin, Deputy Director, Disability Determination Service Division, at (916) 657-2285.

Sincerely,

A handwritten signature in black ink, appearing to read "John A. Wagner", written over a circular stamp.

JOHN A. WAGNER
Director

Enclosure

cc: Peter D. Spencor, Regional Administrator

ENCLOSURE

EXCESS STATE-WIDE INDIRECT COSTS ALLOCATED TO SOCIAL SECURITY ADMINISTRATION (SSA) PROGRAMS

Condition:

The California Department of Social Services (CDSS) improperly charged state-wide indirect costs to SSA programs. According to CDSS personnel, this occurred because adjustments to the proposed state-wide costs were not made after the actual costs were approved. As a result, SSA reimbursed CDSS \$1,544,050 of unallowable costs from July 2001 through June 2005. Beginning in July 2005, CDSS did properly adjust the proposed state-wide costs.

Recommendation 1:

SSA should instruct CDSS to refund \$ 1,544,050 of unallowable statewide indirect costs.

CDSS Response

CDSS concurs. Refund corrections were made on April 11, 2007 and copies of the adjustments were provided to the SSA Office of Inspector General auditor via e-mail on May 29, 2007.

Recommendation 2:

SSA should instruct CDSS to ensure it adjusts the proposed statewide costs after the actual costs are approved.

CDSS Response

CDSS concurs. CDSS has implemented procedures to ensure that the Department of Finance website is checked periodically for adjustments to the state-wide Cost Allocation Plan.

UNALLOWABLE COSTS CLAIMED FOR MEDICAL CONSULTANTS

Condition:

California Disability Determination Service (CA-DDS) claimed unallowable costs paid to medical consultants. This occurred because of control weaknesses that allowed medical consultants to receive additional pay to which they were not entitled. As a result, CA-DDS estimates that SSA reimbursed CDSS \$46,656 of unallowable costs for October 2004 through September 2005.

Recommendation 3:

SSA should instruct CDSS to refund \$46,656 of unallowable personnel costs paid to medical consultants or verify whether medical consultants' bonus payments were proper.

CDSS Response

CDSS concurs. Appropriate adjustments will be made.

Recommendation 4:

SSA should instruct CA-DDS to improve its controls to prevent and detect improper payments made to medical consultants for cases closed in excess of their weekly minimum thresholds.

CDSS Response

CDSS concurs. The CA-DDS has improved its controls by implementing an electronic method and review process, utilizing the Modernized Integrated Disability Adjudicative System (MIDAS) case processing system, to track the number of cases completed by medical consultants in order to prevent improper payments.

IMPROPER CHARGES FROM COMPONENTS THAT DID NOT BENEFIT SSA

Condition:

CDSS improperly claimed personnel costs (for example, occupancy, equipment, communication, travel, and supplies) from components that did not benefit SSA's programs. This occurred because CDSS employees erroneously coded these expenditures as CA-DDS costs. For our audit period, CDSS charged \$69,981 in non-personnel costs from these components, of which we verified that \$38,847 was erroneously coded and charged to SSA's programs.

Recommendation 5:

SSA should instruct CDSS to refund \$38,847 of unallowable non-personnel costs charged from components that did not benefit SSA's programs.

CDSS Response

CDSS concurs. Refund corrections will be made.

Recommendation 6:

SSA should instruct CDSS to issue reminders to all employees on the proper method of charging non-personnel costs to SSA's programs.

CDSS Response

CDSS concurs. The use of overhead Program Cost Account for claiming Operating Expense and Equipment has been an approved methodology for many years. We have reminded the appropriate staff of this process to ensure proper charging of non-personnel costs.

OVERPAYMENT OF LEASE FOR CA-DDS BRANCHES

Condition:

SSA found CDSS had overpaid rental costs for three CA-DDS branches. This occurred because CDSS employees did not ensure the rental payments made agreed with the amounts in the lease agreements. As a result, CDSS claimed \$29,043 in unallowable rental costs for the Los Angeles East, Los Angeles South, and Sacramento branches.

Recommendation 7:

SSA should instruct CDSS to refund \$29,043 of unallowable rental costs for the Los Angeles East, Los Angeles South, and Sacramento branches or submit documentation to support the payment of rent in excess of the lease agreements.

CDSS Response

CDSS does not concur. CDSS has contractual agreements with the Department of General Services (DGS) concerning the three lease agreements. Those lease agreements stipulate a DGS surcharge of approximately two percent for lease negotiation, management and portfolio management, as well as planning, policy and standards charges paid to DGS for managing private leased buildings. The supporting documents previously submitted June 27, 2007 show CDSS payments to DGS for these specific surcharge expenses at these three branches.

Recommendation 8:

SSA should instruct CDSS to improve its controls to ensure that rental costs claimed do not exceed the amounts in the lease agreements.

CDSS Response

CDSS does not concur. The rental costs claimed do not exceed the amounts in the lease agreements.

OIG Contacts and Staff Acknowledgments

OIG Contacts

James J. Klein, Director, San Francisco Audit Division, (510) 970-1739

Joseph Robleto, Audit Manager, (510) 970-1737

Acknowledgments

In addition to those named above:

Wilfred P.K. Wong, Auditor-in-Charge

Nicole Kato Sullivan, Auditor

For additional copies of this report, please visit our web site at www.socialsecurity.gov/oig or contact the Office of the Inspector General's Public Affairs Specialist at (410) 965-3218. Refer to Common Identification Number A-09-06-16129.

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The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.