



SOCIAL SECURITY

MEMORANDUM

Date: May 7, 2003

Refer To:

To: Peter D. Spencer
Regional Commissioner

From: Assistant Inspector General
for Audit

Subject: Audit of Administrative Costs Claimed by the California Disability Determination Services (A-09-02-22022)

The attached final report presents the results of our audit. Our objectives were to evaluate the California Disability Determination Services' internal controls over the accounting and reporting of administrative costs, determine if costs claimed were allowable and properly allocated, reconcile funds drawn down with claimed costs, and assess the electronic data processing general controls environment.

Please comment within 60 days from the date of this memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me at (410) 965-9700.

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

Steven L. Schaeffer

Attachment

cc:
Rita Saenz
Lenore Carlson
Anthony DiNoto

**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

May 2003

A-09-02-22022

AUDIT REPORT



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

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

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

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

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

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.

Executive Summary

OBJECTIVE

The objectives of our audit of the California Disability Determination Services were to (1) evaluate internal controls over the accounting and reporting of administrative costs, (2) determine if costs claimed were allowable and properly allocated, (3) reconcile funds drawn down with claimed costs, and (4) assess the electronic data processing general controls environment.

BACKGROUND

Disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs are performed by disability determination services (DDS) in each State in accordance with Federal regulations. Each DDS 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 DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources. SSA reimburses the DDS for 100 percent of allowable expenditures.

RESULTS OF REVIEW

Our review of administrative costs disclosed that the California Department of Social Services (DSS) had overstated its disbursements by \$6,872,503 for October 1996 through March 2002. This occurred because DSS charged unallowable medical, nonpersonnel, and indirect costs to SSA's programs. We also found that DSS had overstated its unliquidated obligations by \$5,708,314 for Fiscal Years (FY) 1999 and 2000. As a result, DSS overreported its total obligations to SSA by \$12,580,817 (see Appendix A). In addition, DSS needs to improve its cash management practices and access controls over computer security.

RECOMMENDATIONS

We recommend that SSA instruct DSS to refund \$3,879,737 in unallowable costs and deobligate any unliquidated obligations that are not supported by valid documentation. We also recommend that SSA determine the propriety of consultative examination fees for x-rays, laboratory tests, and other medical services and recover any unallowable costs. In addition, we recommend that SSA work with DSS to provide training to its employees and improve controls and procedures over the reporting of administrative costs, draw down of Federal funds, and systems access security.

SSA/DSS COMMENTS AND OIG RESPONSE

In its response, SSA generally agreed with 34 of the original 37 recommendations. DSS generally agreed with 22 recommendations, disagreed with 14 recommendations, and did not comment on 1 recommendation. Based on their comments, we deleted 2 of the original 37 recommendations and revised another 8 recommendations. In addition, we incorporated a number of technical comments into the report. As of March 2003, DSS refunded \$2,364,702 in unallowable costs to SSA and agreed to refund \$1,171,878 in additional costs questioned by our audit. A summary of SSA's and DSS' comments, along with our responses, is provided on pages 27-32 of this report. The full text of SSA's comments is included in Appendix C. Because of the length of DSS' comments, we did not include the full text as an appendix. A copy of DSS' comments may be obtained by written request to SSA/OIG/Office of Audit in Baltimore, Maryland.

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Acronyms

Act	Social Security Act
AMA	American Medical Association
ARF	Architecture Revolving Fund
ASAP	Automated Standard Application for Payments
CADDS	California Disability Determination Services
CALSTARS	California State Accounting and Reporting System
CE	Consultative Examination
CFR	Code of Federal Regulations
CMIA	Cash Management Improvement Act
CPT	Current Procedural Terminology
DAPD	Disability and Adult Programs Division
DDS	Disability Determination Services
DGS	Department of General Services
DI	Disability Insurance
DOF	Department of Finance
DSS	Department of Social Services
EDP	Electronic Data Processing
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
HHS	Department of Health and Human Services
IWS/LAN	Intelligent Workstation/Local Area Network
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
PwC	PricewaterhouseCoopers LLP
ROR	Review of Records
SSA	Social Security Administration
SSI	Supplemental Security Income
Treasury	Department of the Treasury
USC	United States Code

Introduction

OBJECTIVE

The objectives of our audit of the California Disability Determination Services (CADDs) were to (1) evaluate internal controls over the accounting and reporting of administrative costs, (2) determine if costs claimed were allowable and properly allocated, (3) reconcile funds drawn down with claimed costs, and (4) assess the electronic data processing (EDP) general controls environment.

BACKGROUND

The Disability Insurance (DI) program was established in 1954 under title II of the Social Security Act (Act). The DI program provides benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted the Supplemental Security Income (SSI) program under title XVI of the Act. The SSI program 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 DI and SSI programs. Disability determinations under both DI and SSI are performed by disability determination services (DDS) in each State in accordance with Federal regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the 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 (Treasury) Automated Standard Application for Payments (ASAP) system to pay for program expenditures. Funds drawn down must comply with Federal regulations² and intergovernmental agreements entered into by Treasury and States under the Cash Management Improvement Act (CMIA).³ An advance or reimbursement for costs under the program must comply with the Office of Management and Budget's (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the fiscal year (FY), each DDS submits a Form SSA-4513,

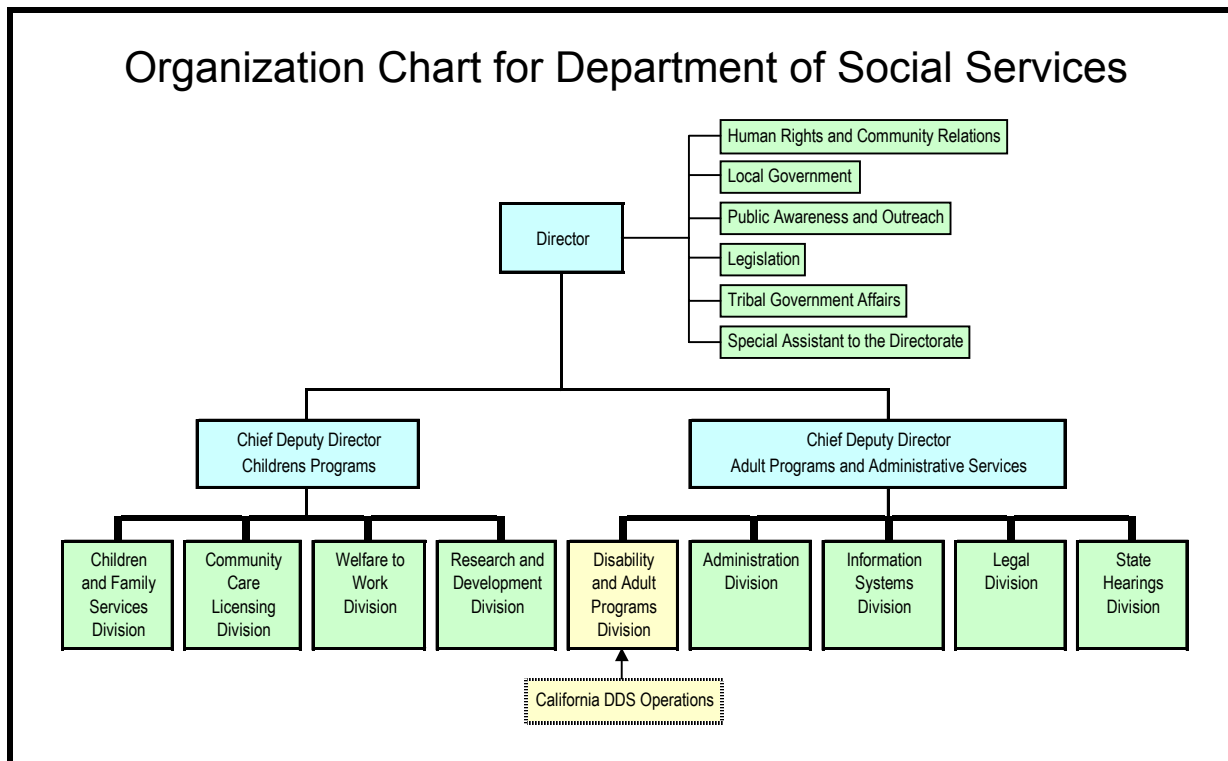
¹ 20 C.F.R. Part 404, Subpart Q and Part 416, Subpart J.

² 31 C.F.R. Part 205.

³ Pub. L. No. 101-453.

State Agency Report of Obligations for SSA Disability Programs, to account for program disbursements and unliquidated obligations.

CADDS is a component within the California Department of Social Services (DSS), Disability and Adult Programs Division (DAPD). For FYs 1999 and 2000, CADDS had about 1,500 employees and an authorized budget of \$345.1 million for administrative costs. As of June 30, 2001, DSS reported total disbursements of \$339.8 million, unliquidated obligations of \$4.3 million, and unobligated funds of \$1 million. The following chart provides an overview of the organizational structure of DSS.



SCOPE AND METHODOLOGY

We reviewed the administrative costs reported by CADDS on its Form SSA-4513 for FYs 1999 and 2000. However, seven of our findings affected the costs claimed in FYs 1997 and 1998. In addition, 15 findings affected the costs claimed in FYs 2001 and 2002. Therefore, we expanded the audit period to fully develop these findings. For the items tested, we reviewed DSS' compliance with applicable laws and regulations over the allowability of administrative costs and draw down of Federal funds.

To accomplish our objective, we:

- Reviewed OMB Circular A-87, Code of Federal Regulations, United States Code, SSA's Program Operations Manual System (POMS), DSS' Time Reporting Handbook, and DSS' Cost Allocation Plan;

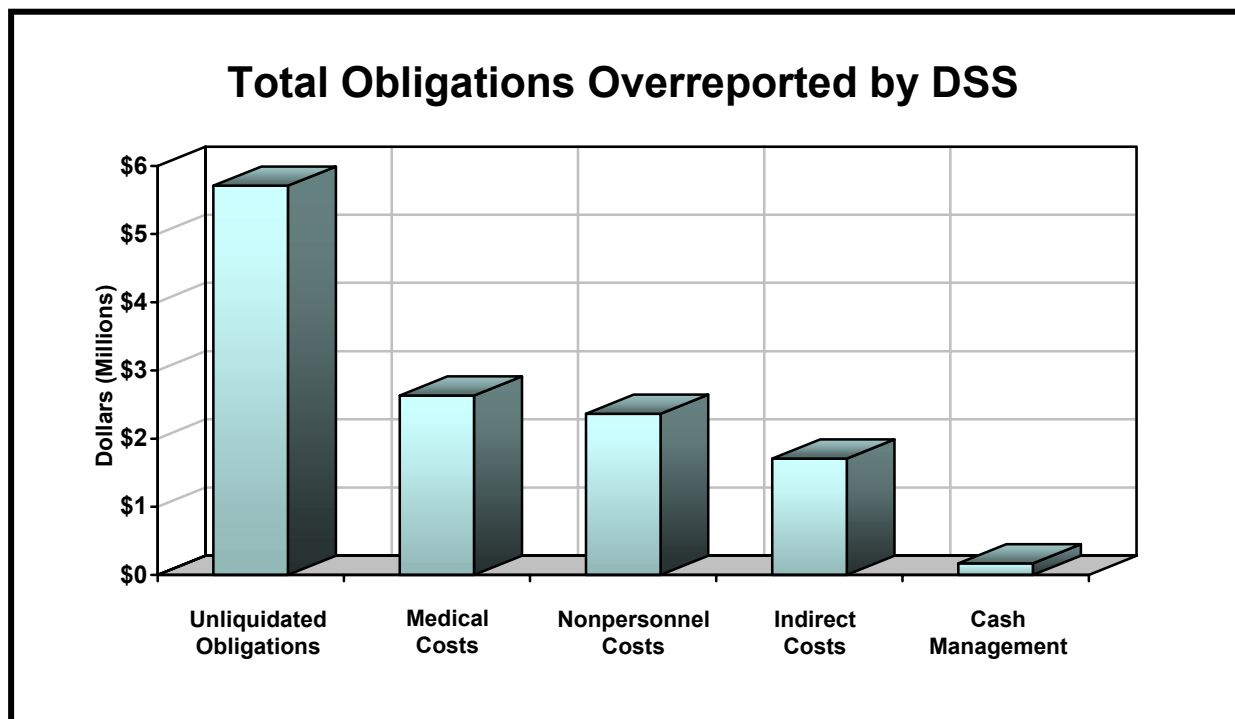
- Reviewed DSS' policies and procedures related to nonpersonnel, medical, and indirect costs;
- Interviewed employees from the California State Auditor's Office, SSA regional office, DSS headquarters and branch offices, and Department of Health and Human Services (HHS), Division of Cost Allocation;
- Reviewed the findings and recommendations of PricewaterhouseCoopers LLP (PwC) in SSA's FY 2000 Management Letter, Appendix A, *SSA Oversight of DDS Security*;
- Reviewed the corrective actions taken by DSS on our prior audit reports, including *Audit of Administrative Costs at the California Disability Determination Services (A-09-97-51006)*, dated December 4, 1998, and *Access Controls over the Modernized Interim Disability Adjudication System in the State of California (A-09-98-51010)*, dated January 14, 1999;
- Evaluated and tested internal controls over accounting, financial reporting, and cash management;
- 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 nonpersonnel, medical, and indirect costs during FYs 1999 and 2000;
- Selected a random sample of nonpersonnel and medical costs, including (1) invoices for medical evidence of records (MER) during FYs 1997 through 2001, and (2) invoices for review of records during FYs 1998 through 2001; and
- Reconciled the accounting records to the costs reported by DSS on its Form SSA-4513 for FYs 1999 and 2000.

Based on prior audit work conducted by the Office of the Inspector General (OIG) and California State Auditor's Office, we assigned a low risk to personnel costs and did not perform a review of these costs during FYs 1999 and 2000. In addition, we limited our review of EDP general controls to the prior findings reported by PwC and OIG.

We performed audit work at DSS, CADDs, and the California State Auditor's Office in Sacramento, California. We also performed audit work at the SSA regional office in Richmond, California. Field work was conducted between July 2001 and September 2002. The entity audited was the Office of Disability within the Office of the Deputy Commissioner for Disability and Income Security Programs. We conducted our audit in accordance with generally accepted government auditing standards.

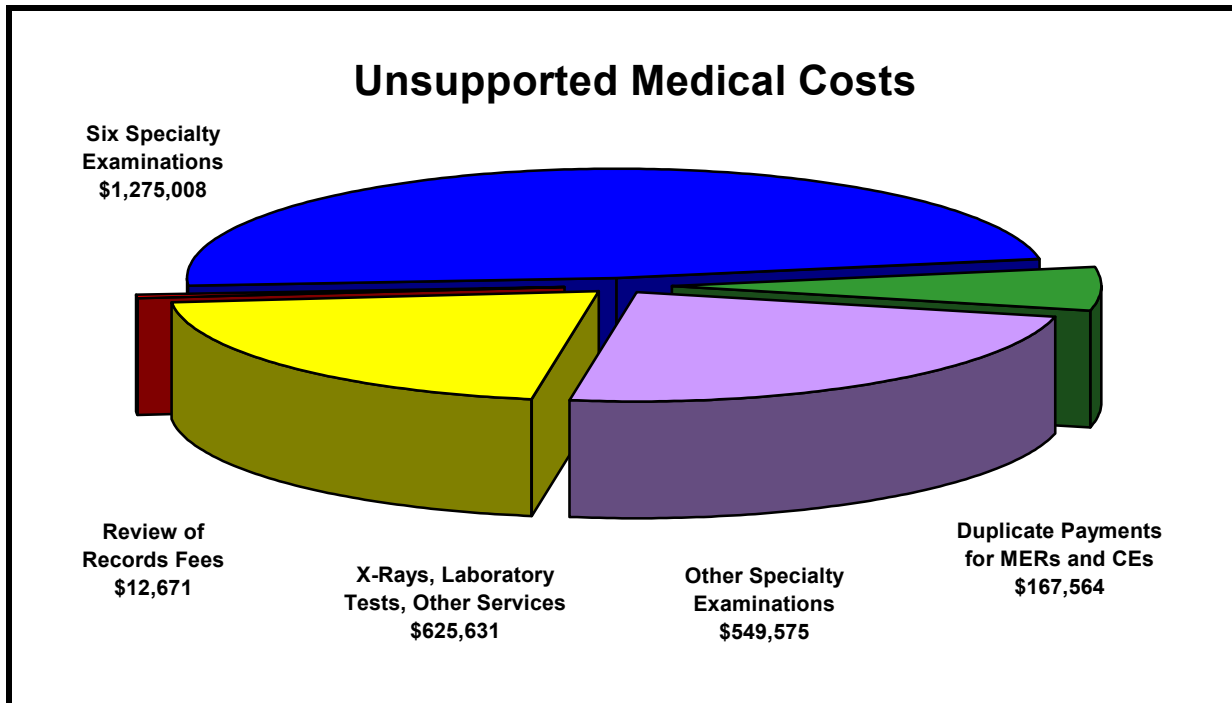
Results of Review

Our review of administrative costs disclosed that DSS had overstated its disbursements by \$6,872,503 for October 1996 through March 2002. This occurred because DSS charged unallowable medical, nonpersonnel, and indirect costs to SSA's programs. We also found that DSS had overstated its unliquidated obligations by \$5,708,314 for FYs 1999 and 2000. As a result, DSS overreported its total obligations to SSA by \$12,580,817 (see Appendix A). In addition, DSS needs to improve its cash management practices and access controls over computer security. The following chart summarizes the total obligations overreported by DSS.



MEDICAL COSTS

For FYs 1997 through 2001, we found that DSS claimed \$2,630,449 of unsupported medical costs that were charged to SSA's programs. These costs included fee increases for specialty examinations; x-rays, laboratory tests, and other services; duplicate payments for MERs and consultative examinations (CE); and review of records fees. The following chart provides a breakdown of the medical costs questioned by our audit.



Fee Increase for Six Specialty Examinations

DSS paid excessive fees for six specialty examinations performed by board certified or eligible physicians. This occurred because SSA and CADDs did not ensure that the payment rates for medical services were consistent with applicable policies and procedures. If payment rates were limited to the highest rate allowable by Federal or other agencies in the State, we estimate that SSA could have realized \$1,275,008 in potential cost savings for October 1998 through December 1999.

Federal regulations require that each State determine the payment rates for medical or other services necessary to make determinations of disability. The rates may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar types of service. In addition, the State must maintain documentation to support the payment rates used.⁴

SSA's procedures state that the DDS should fully document its methodology for establishing and updating payment rates for medical services. The DDS should maintain records of the usual and customary charges billed by, and the authorized payments disbursed to, medical providers. When possible, the DDS should also use the American Medical Association's (AMA) Current Procedural Terminology (CPT) coding system to identify each procedure in its fee schedule.⁵

⁴ 20 C.F.R. §§ 404.1624 and 416.1024.

⁵ POMS, section DI 39545.410.

Effective July 1, 1998, CADDs increased its fees for full examinations performed by board certified or eligible physicians in the following six medical specialties: cardiology, neurology, orthopedics, pediatrics, psychiatry, and internal medicine. CADDs acknowledged that the revised rates should be reviewed closely to ensure they did not exceed those paid under the Medicare program. Nevertheless, this fee increase resulted in payment rates in excess of those allowed by Medicare, which represents the highest rate paid by Federal or other agencies in the State.

In January 1999, SSA's Office of Disability convened a workgroup to provide guidance for establishing fee schedules for medical procedures.⁶ SSA stated that each State should be cost-efficient and make every attempt to negotiate fees below the highest allowable rates. However, SSA concluded that the maximum payment rates shall be based on the Medicare fee schedule if the DDS does not use other State agency fee schedules for the same or similar types of service. To identify the applicable Medicare fees for its CEs, SSA stated that the DDS could use one of four CPT codes based on the complexity of the examination. Specifically, SSA stated that the DDS could use CPT code 99243 (that is, a detailed, 40-minute examination) for most of its CEs.

Although Medicare uses the AMA's CPT coding system, our review disclosed that CADDs has not fully adopted such a system for its CEs, including the six specialty examinations. A standardized coding system is necessary to (1) provide a crosswalk between the DDS and Medicare codes for the same or similar types of service, and (2) enable SSA and CADDs to readily identify, monitor, and compare CE costs against fees paid by other agencies. In response to our draft report, CADDs stated that it had selected CPT code 99204 (that is, a comprehensive, 45-minute examination) for its specialty examinations.

For the six medical specialties, CADDs paid \$18,553,414 for 153,334 examinations by board certified or eligible physicians for October 1998 through December 1999. However, using the applicable Medicare fees for CPT code 99204, the maximum payments for these examinations were limited to \$17,278,406. Therefore, if payment rates were limited to the highest allowable fees, we estimate that SSA could have realized \$1,275,008 in potential cost savings. We recognize that other CPT codes may apply to the six specialty examinations performed by board certified or eligible physicians. Accordingly, SSA should improve its oversight of CE fees and limit future payments to the highest rate paid by Federal or other agencies in the State.

Fee Increase for Other Specialty Examinations

DSS paid excessive fees for other specialty examinations performed by board certified or eligible physicians. CADDs did not provide SSA with adequate notification and justification to increase its fees from six specialty examinations to all specialty examinations. Such fees were neither reasonable nor necessary. As a result, SSA reimbursed DSS for \$549,575 of unsupported costs for FYs 1999 through 2001.

⁶ SSA, Office of Disability, *Medical Procedures Fee Schedule Workgroup Report*, January 1999.

SSA's procedures require the DDS to notify the SSA regional office of any changes in its fee schedules for MERs and CEs. In addition, the DDS should review its records annually with the SSA regional office to determine whether the fee schedule is adequate and cost-effective.⁷

On November 14, 1997, CADDs notified SSA of its proposal to increase fees for CEs performed by board certified or eligible physicians to \$121 by adding a specialty fee of \$25 to the payment rate of \$96. The notification limited the \$25 fee to full examinations by board certified or eligible physicians in six medical specialties only. CADDs stated that the fee increase would facilitate the recruitment of medical specialists and improve the quality of the examinations. However, CADDs stated there was no current urgency to recruit general practice physicians or nonessential specialists for other specialty examinations.

SSA recommended that CADDs conduct a pilot study in two branch offices to evaluate the impact of the fee increase and determine if the expected benefits were realized. Nevertheless, on July 1, 1998, CADDs implemented the fee increase statewide for the six specialty examinations. On September 15, 1998, CADDs expanded the fee increase to all specialty examinations by board certified or eligible physicians. CADDs also described the specialty fee as a "bonus" and stated that employees were not required to monitor whether the physicians were actually board certified or eligible.

CADDs issued a memorandum to notify its branch offices of the expanded fee increase. However, the memorandum was not addressed to SSA. Although SSA subsequently obtained a copy of the memorandum, we do not believe such notification was adequate. During our audit, we found no evidence to indicate that SSA management had been properly notified of the fee increase. Moreover, CADDs did not provide supporting documentation for the fee increase, even though it had previously stated that such fees were not necessary for other specialty examinations.

For FYs 1999 through 2001, CADDs purchased 21,983 examinations by board certified or eligible physicians in other medical specialties. Because CADDs provided insufficient notification and justification to SSA, we believe these examinations were not eligible for the \$25 specialty fee. Therefore, CADDs should provide supporting documentation for its expansion of the fee increase to all specialty examinations. Furthermore, since POMS only requires the DDS to provide notification of any changes in its fee schedule, SSA should clarify its procedures for reviewing subsequent fee increases in a timely manner.

⁷ POMS, sections DI 39545.210 and DI 39545.410.

X-Rays, Laboratory Tests, and Other Services

DSS paid excessive fees for its x-rays, laboratory tests, and other medical services. This occurred because CADDs reimbursed medical providers at payment rates in excess of the maximum rates paid by Federal or other agencies in the State. As a result, SSA reimbursed DSS for \$625,631 of unallowable costs for FYs 1999 through 2001.

The DDS is responsible for obtaining adequate medical evidence to support its disability determinations. In doing so, the DDS may purchase CEs to supplement the MER obtained from the claimants' treating sources. SSA's procedures require the DDS to establish a fee schedule to reimburse medical providers for their services. Authorized payments represent the lower of (1) the provider's usual and customary charge, or (2) the maximum allowable charge under the fee schedule (that is, the highest rate paid by Federal or other agencies in the State for the same or similar types of service).⁸

In California, the payment rates for medical services are based on the fees paid under the Medi-Cal program. The California Department of Health Services is responsible for establishing the Medi-Cal fee schedule. These fees are lower than those paid under the Medicare program. Our review disclosed that Medicare paid the highest rate among Federal or other agencies in the State for the same or similar types of service.

We matched the rates paid by Medicare with the fees paid by CADDs for its x-rays, laboratory tests, and other medical services. Accordingly, we found that CADDs used payment rates exceeding those allowed by Medicare. CADDs paid \$2,209,717 for 29,491 CEs during FYs 1999 through 2001. However, using the applicable Medicare fees, the maximum payments for these CEs were limited to \$1,584,086. Therefore, we determined that CADDs disbursed \$625,631 in excess of the allowable Medicare fees. SSA should evaluate the reasonableness of these fees and recover any unallowable costs.

Duplicate Payments for MERs and CEs

DSS charged duplicate payments for MERs and CEs from vendors (that is, physicians, hospitals, interpreters, and other medical providers). This finding was reported in our prior audit for FYs 1995 and 1996. DSS partially agreed with our recommendations. However, because of inadequate controls and procedures over the processing of medical costs, CADDs disbursed duplicate payments of at least \$121,342 for medical records and \$46,222 for medical services. As a result, we estimate that SSA reimbursed DSS for at least \$167,564 of unallowable costs for FYs 1997 through 2001.

In our prior audit, we reported that CADDs did not always (1) resolve exception reports before disbursing payments to vendors, and (2) contact medical providers before ordering medical records for claimants. SSA's Modernized Interim Disability Adjudication System (MIDAS) generates exception reports to identify questionable

⁸ POMS, section DI 39545.210.

transactions resulting in potential duplicate payments. On a weekly basis, CADDs distributes the exception reports to its branch offices for review. However, unless notified otherwise, DSS disburses payments for these transactions regardless of whether the exception reports are reviewed or resolved. Our review identified duplicate payments for questionable transactions on the exception reports and multiple requests for the same medical records or services.

For medical records, we reviewed a sample of MER invoices with matching data elements to identify duplicate payments. These MERs included copies of x-rays, prescriptions, laboratory reports, ancillary tests, and operative and pathology reports. Based on our random sample of 100 invoices during FYs 1997 through 2001, we found 52 invoices representing duplicate payments for the same medical records. Projecting these results to our population of 14,605 invoices, we estimate that CADDs disbursed at least \$121,342 in duplicate payments for medical records (see Appendix B).

For medical services, we reviewed all CE invoices with matching data elements to identify duplicate payments. Based on our population of 1,420 invoices during FYs 1997 through 2001, we found 977 invoices representing duplicate payments for the same medical services. For these cases, we determined that CADDs disbursed \$46,222 in duplicate payments for medical services.

Review of Records Fees

DSS charged excessive medical costs for review of records. This finding was reported in our prior audit for FYs 1995 and 1996. DSS partially agreed with our recommendations. However, because of clerical errors, CADDs paid fees for vendors to review medical records even though such fees were not related to missed appointments or Office of Hearings and Appeals (OHA) cases as required. As a result, we estimate that SSA reimbursed DSS for at least \$12,671 of unallowable costs for FYs 1998 through 2001.

DSS' procedures state that a maximum fee of \$20 is authorized for review of records on no-show appointments for medical examinations. In addition, the \$20 fee is authorized for review of records on OHA cases involving a large volume of evidence. However, this fee is a 1-time payment and cannot be paid twice for the same claimant, medical provider, and examination. If the fee is paid for no-show appointments, it cannot be paid for OHA cases, and visa versa.⁹

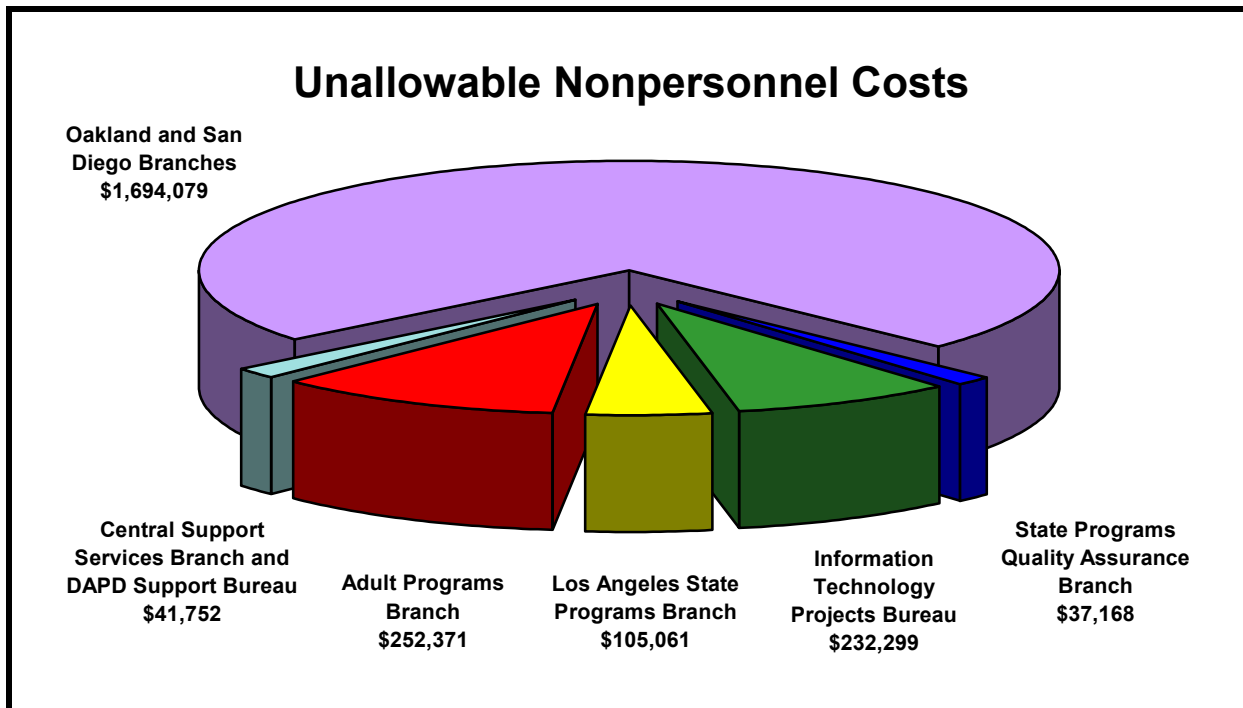
In our prior audit, we reported that DSS should clarify its procedures over the allowability of fees for the review of medical records. Although DSS implemented corrective action, such controls were not always sufficient to ensure the propriety of review of records fees.

⁹ Medical Services Manual, sections 701-4 and 701-5.

Based on our random sample of 100 invoices during FYs 1998 through 2001, we found 8 invoices representing erroneous payments because they were not related to missed appointments or OHA cases. Projecting these results to our population of 18,178 invoices, we estimate that CADDs disbursed at least \$12,671 in erroneous payments for review of records (see Appendix B).

NONPERSONNEL COSTS

For May 1998 through February 2002, we found that DSS claimed \$2,362,730 of unallowable nonpersonnel costs that did not benefit SSA's programs. These costs included nonpersonnel costs from the Oakland and San Diego Branches, Adult Programs Branch, Information Technology Projects Bureau, Los Angeles State Programs Branch, Central Support Services Branch and DAPD Support Bureau, and State Programs Quality Assurance Branch. The following chart provides a breakdown of the nonpersonnel costs questioned by our audit.



Oakland and San Diego Branches

DSS charged excessive rental costs for the Oakland and San Diego branch offices. This occurred because DSS employees were unaware that (1) the rent at these two locations was limited to the rates established by the prior leases, and (2) the San Diego branch offices were charged for rent before the actual move-in date. As a result, SSA reimbursed DSS for \$1,694,079 in unallowable costs for March 1999 through February 2002.

CADDS maintains 12 branch offices and performs disability evaluations for SSA. Four of these branches moved from privately-owned buildings to State-owned buildings. SSA approved the relocation provided that the rent did not exceed the amounts in the prior leases. Any excessive rental costs or other expenses related to the relocation were to be paid by the State of California. DSS relocated the branch offices before the prior leases had expired. The two Oakland branch offices moved into the Elihu Harris State Office Building in February 1999 and the two San Diego branch offices moved into the Mission Valley State Office Building in June 2001.

The California Department of General Services (DGS) manages the State-owned buildings. DGS performs maintenance and other services, including billing the tenants for their share of the rent. For the Oakland and San Diego branch offices, the rental costs were higher at the new State buildings than in the privately-owned buildings. However, DSS employees in the Financial Services Bureau were unaware of the rent limitation that precluded charging SSA for costs in excess of the amounts in the prior leases. Therefore, the full amount of rent for the new Oakland and San Diego branch offices was charged to SSA's programs.

For the Oakland branch offices, CADDS subsequently learned that excessive rental costs had been charged. In February 2000, CADDS requested that DSS adjust these costs and charge any rent in excess of the prior lease amounts to a non-SSA account. In March 2000, DSS refunded \$538,051 to SSA. However, DSS continued to charge the full amount of rent to SSA's programs. For March 1999 through February 2002, DSS charged \$1,635,078 in excessive rental costs for the Oakland branch offices and refunded only \$538,051 to SSA. As a result, DSS should refund the remaining \$1,097,027 in excessive rental costs.

For the San Diego branch offices, DSS also learned that excessive rental costs had been charged. During our audit, DSS employees were in the process of adjusting their accounting records to correct most of these costs. However, we found that DGS billed \$526,750 for the State-owned building based on the initial move-in date of December 2000, even though CADDS did not occupy the space until June 2001. Furthermore, because CADDS had terminated the prior lease before the State-owned building was available, it incurred \$70,302 in additional rental costs to lease the privately-owned building for another 6 months. As a result, DSS should refund the \$597,052 in excessive rental costs.

Adult Programs Branch

DSS charged nonpersonnel costs from the Adult Programs Branch to SSA's programs. The Adult Programs Branch, a component within DAPD, provides oversight of State programs for the aged, blind, or disabled. Because DSS employees were not properly trained to allocate costs for the Adult Programs Branch, these costs were charged to SSA's programs. As a result, SSA reimbursed DSS for \$252,371 in unallowable costs for October 1998 through June 2001.

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.¹⁰

Although most components within DAPD perform activities that benefit SSA's programs, the activities of the Adult Programs Branch benefit non-SSA programs only. Therefore, the costs from the Adult Programs Branch should not have been charged to SSA's programs. DSS employees in the Business and Financial Services Bureaus were unaware of the proper method to charge costs for the Adult Programs Branch. These employees charged all DAPD costs to SSA's programs rather than allocate the costs to the benefiting programs.

Information Technology Projects Bureau

DSS charged rental and security costs for office space that did not house employees assigned to SSA's programs. This finding was reported in our prior audit for FYs 1995 and 1996. DSS agreed with our recommendations but did not correct the method of charging rental and security costs. As a result, SSA reimbursed DSS for \$232,299 of unallowable costs for May 1998 through June 2001.

In our prior audit, we reported that the MIDAS Project Section, a component within the Information Technology Projects Bureau, performs activities that primarily benefit SSA's programs. In September 1996, the MIDAS Project Section relocated to another building. Although DSS charged the rental and security costs for the new building to SSA's programs, it also charged the costs for the old building to the overhead account for the Information Technology Projects Bureau. Based on employee time reports, these costs were subsequently allocated to SSA's programs. Therefore, DSS charged \$196,413 in unallowable costs for October 1996 through April 1998.

In July 1999, DSS refunded these costs to SSA and renamed the MIDAS Project Section as the DAPD Support Bureau. However, DSS did not revise its method for allocating the costs for the Information Technology Projects Bureau. For May 1998 through June 2001, DSS incorrectly allocated \$232,299 of rental and security costs for the Information Technology Projects Bureau to SSA's programs.

Los Angeles State Programs Branch

DSS charged telephone costs from the Los Angeles State Programs Branch to SSA's programs. This occurred because DSS employees misclassified these expenditures as telephone costs for the Los Angeles West Branch, which performs activities that benefit SSA's programs. As a result, SSA reimbursed DSS for \$105,061 in unallowable costs for August 1998 through February 2001.

¹⁰ POMS, section DI 39506.001.

The Los Angeles State Programs Branch develops, evaluates, and adjudicates Medi-Cal (that is, Medicaid) claims. Our review disclosed that the telephone costs were applicable to the Los Angeles State Programs Branch rather than the Los Angeles West Branch. Therefore, these costs should not have been charged to SSA's programs. In March 2001, CADDs identified the incorrect charges and adjusted its method of charging these costs for subsequent years. However, DSS did not refund the incorrect charges for prior years.

Central Support Services Branch and DAPD Support Bureau

DSS charged excessive rental costs for office space occupied by the Central Support Services Branch and DAPD Support Bureau. These components perform activities that benefit both SSA and non-SSA programs. However, DSS charged the rental costs for the Central Support Services Branch and DAPD Support Bureau entirely to SSA's programs. As a result, SSA reimbursed DSS for \$41,752 in unallowable costs for October 1999 through June 2001.

According to DSS' Cost Allocation Plan, general expenditures benefiting multiple programs, such as office rent and utilities, should be charged to the component's overhead account.¹¹ These expenditures are allocated to benefiting programs based on employee time reports.

In October 1999, the Central Support Services Branch and DAPD Support Bureau relocated to a new building. CADDs instructed DSS employees in the Financial Services Bureau to charge the rental costs for office space occupied by these components to SSA's programs. Although these costs benefited multiple programs, CADDs was unaware of the proper method to charge costs for office space. For October 1999 through June 2001, DSS charged \$572,715 of rental costs for the Central Support Services Branch and DAPD Support Bureau, of which \$41,752 was incorrectly allocated to SSA's programs.

State Programs Quality Assurance Branch

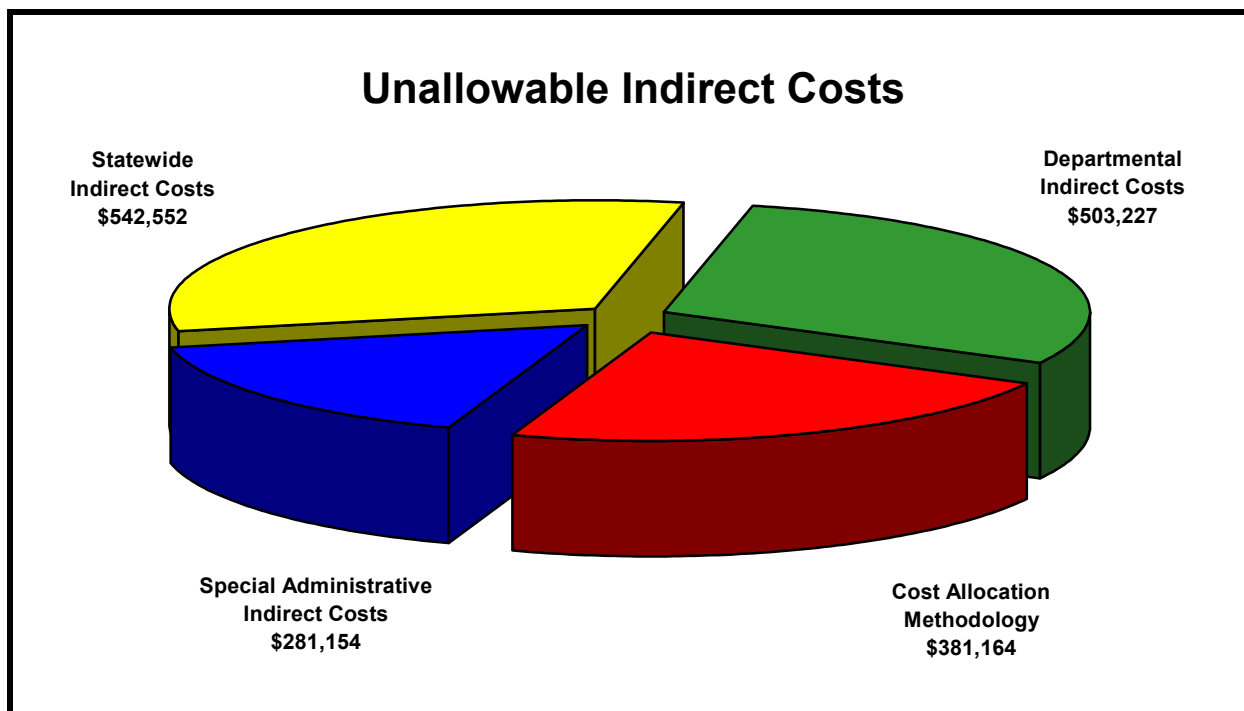
DSS charged rental costs for office space occupied by the State Programs Quality Assurance Branch to SSA's programs. This occurred because DSS employees did not provide sufficient guidance to ensure these expenditures were charged to the benefiting programs. As a result, SSA reimbursed DSS for \$37,168 in unallowable costs for August 1998 through November 1999.

The State Programs Quality Assurance Branch reviews and monitors adjudicated Medi-Cal claims. Since these activities benefit State programs only, the rental costs should not have been charged to SSA's programs. In October 1999, the State Programs Quality Assurance Branch relocated to a new building. Effective December 1999, DSS properly charged the rental costs to State programs.

¹¹ DSS' *Cost Allocation Plan for Direct and Indirect Costs*, State FYs 1999 through 2001.

INDIRECT COSTS

For May 1998 through March 2002, we found that DSS claimed \$1,708,097 of unallowable indirect costs that did not benefit SSA's programs. These costs included statewide, departmental, and special administrative indirect costs. The following chart provides a breakdown of the indirect costs questioned by our audit.



Statewide Indirect Costs

DSS charged excessive statewide indirect costs to SSA's programs. For State FYs 1998 through 2000, DSS was unaware of adjustments to the proposed statewide indirect costs. Accordingly, DSS used the proposed costs rather than the actual costs during this period. As a result, SSA reimbursed DSS for \$542,552 in unallowable costs for July 1998 through June 2001.

Indirect cost pools are used when activities benefit multiple programs or the entire department. Statewide indirect costs are expenditures for services that benefit all departments within the State. These services include accounting, auditing, budgeting, and payroll from the California Department of Finance (DOF), Office of the State Controller, and State Personnel board. Statewide indirect cost pools are used to allocate an equitable share of statewide costs to the Federal programs benefiting from these services.

Upon approval of the Statewide Indirect Cost Allocation Plan, DOF notified all State departments, in writing, of any revisions to the proposed statewide indirect costs. However, effective State FY 1998, DOF discontinued this practice. Instead, DOF required State departments to review its website for any revisions to the proposed statewide indirect costs. Because DSS employees were unaware of this requirement, they did not learn of subsequent adjustments to the proposed statewide indirect costs.

For July 1998 through June 2001, DSS allocated \$1,509,226 of excessive statewide indirect costs, of which \$592,961 was incorrectly charged to SSA's programs. However, because of an accounting error, DSS did not charge \$50,409 of allowable statewide indirect costs to SSA's programs in June 1998. After subtracting the allowable costs from the unallowable costs, we determined the net unallowable costs were \$542,552. In April 2002, DSS adjusted its accounting records and refunded these costs to SSA. Therefore, we are not recommending a refund for this amount.

Departmental Indirect Costs

DSS incorrectly charged departmental indirect costs from various components within the Information Systems Division to SSA's programs. These components included the Information Systems Bureau, Information Technology Planning Bureau, and PC Support Unit. This finding was reported in our prior audit for FYs 1995 and 1996. DSS agreed with our recommendations but did not take corrective action in a timely manner. As a result, SSA reimbursed DSS for \$503,227 of unallowable costs for May 1998 through March 1999.

In our prior audit, we reported that the Information Systems Bureau and Information Technology Planning Bureau (1) maintained insufficient documentation for its time charges to the departmental indirect cost pool, and (2) included employees in the incorrect organizational units for time reporting purposes. In addition, the Information Technology Planning Bureau charged costs to the departmental indirect cost pool using estimated rather than actual time charges. In February 1998, we notified DSS of these weaknesses and recommended the use of proper time reporting procedures so that costs were equitably distributed to the benefiting programs.

In April 1999, the Information Systems Bureau and Information Technology Planning Bureau discontinued charging expenditures to the departmental indirect cost pool, which is allocated to all programs including SSA's programs. Instead, both components charged expenditures to a special administrative indirect cost pool, which is allocated to all programs excluding SSA's programs. However, DSS did not refund any prior incorrect charges to SSA. For October 1998 through March 1999, these components incorrectly charged \$1,094,781 to the departmental indirect cost pool, of which \$439,823 was allocated to SSA's programs.

In our prior audit, we also reported that the PC Support Unit performed activities that primarily benefit non-SSA programs. However, the PC Support Unit charged expenditures to the departmental indirect cost pool, which is allocated to SSA and non-SSA programs. For October 1994 through April 1998, DSS adjusted its accounting records and refunded \$527,322 to SSA. Nevertheless, the PC Support Unit continued to charge expenditures to the departmental indirect cost pool. For May 1998 through September 1998, the PC Support Unit incorrectly charged \$159,318 to the departmental indirect cost pool, of which \$63,404 was allocated to SSA's programs.

Cost Allocation Methodology

DSS charged excessive departmental and statewide indirect costs to SSA's programs. We found that DSS incorrectly revised its methodology for allocating indirect costs to the benefiting programs without obtaining approval from HHS, Division of Cost Allocation. As a result, SSA reimbursed DSS for \$381,164 of unallowable costs for March 1999 through June 2001.

Federal cost standards require all programs that benefit from expenditures in an indirect cost pool to receive an appropriate allocation of indirect costs.¹² Each year, HHS reviews and approves DSS' Cost Allocation Plan. Each month, DSS allocates indirect costs to the benefiting programs based on the ratio of salaries charged to each program divided by the salaries charged to all programs.

The departmental and statewide indirect cost pools benefit all programs, including SSA and non-SSA programs. In March 1999, DSS established a special administrative indirect cost pool to accumulate the costs of activities that benefit non-SSA programs only. However, because of errors in its methodology for allocating these costs, DSS included the special administrative indirect cost pool with the departmental and statewide indirect cost pools. This resulted in an inequitable distribution of departmental and statewide indirect costs to SSA. In addition, DSS omitted the revised methodology from its Cost Allocation Plan for July 1998 through June 2001 and, therefore, did not obtain approval from HHS as required.

For March 1999 through June 2001, DSS allocated an additional \$251,891 of departmental indirect costs and \$129,273 of statewide indirect costs to SSA's programs that should have been allocated to non-SSA programs. Effective July 1, 2002, DSS discontinued its use of the special administrative indirect cost pool. Although DSS corrected its method of charging these costs for subsequent years, it did not refund the incorrect charges for prior years.

¹² OMB Circular A-87, Attachment A, C.3.b.

Special Administrative Indirect Costs

DSS charged special administrative indirect costs to SSA's programs. However, these costs did not benefit SSA's programs. Because of errors in its allocation of special administrative indirect costs, DSS did not ensure these costs were allocated to non-SSA programs only. As a result, SSA reimbursed DSS for \$281,154 of unallowable costs for March 1999 through March 2002.

Federal cost standards state that expenditures may be allocated to a particular program if the goods or services are charged in accordance with the relative benefits received.¹³ The special administrative indirect cost pool is limited to activities within the Administration and Information Systems Divisions that benefit all programs except for SSA's programs. We found that SSA did not receive any benefits from the expenditures charged to the special administrative indirect cost pool. Therefore, DSS should refund these costs to SSA.

CASH MANAGEMENT

DSS needs to improve its cash management practices. These practices included the collection of funds from unnegotiated warrants, use of SSA funds to replenish State funds, and proper draw down of Federal funds.

Unnegotiated Warrants

DSS did not return funds from unnegotiated warrants (that is, checks) to SSA's programs. This occurred because DSS was unaware of a change in State regulations, which required the Agency to collect and remit funds from the cancellation of unnegotiated warrants to the applicable Federal grants. As a result, DSS owed SSA for \$128,071 in unnegotiated warrants for January 1999 through June 2001.

Effective January 1, 1998, the Office of the State Controller cancelled all warrants that were not negotiated after 12 months and set aside the funds in an escheat account.¹⁴ State departments were responsible for collecting and returning funds to the applicable Federal grants.

Our review disclosed that DSS did not establish procedures to recover the proceeds from unnegotiated warrants and refund such amounts to the applicable Federal grants. For January 1999 through June 2001, the Office of the State Controller cancelled \$128,071 in outstanding warrants against SSA's programs. During our audit, DSS employees were in the process of initiating corrective action to return these funds to SSA.

¹³ OMB Circular A-87, Attachment A, C.3.a.

¹⁴ State Administrative Manual, section 8281.

Use of SSA Funds to Replenish State Funds

DSS incorrectly used SSA funds to replenish State funds for two projects. To support its draw down of Federal funds, DSS recorded expenditures for \$1,284,803 even though only \$8,136 had been incurred for these projects. This resulted in the premature draw down of \$1,276,667 in Federal funds. As a result, DSS owed \$43,156 in lost interest to the Federal Government for March 2001 through March 2002.

State regulations require the transfer of funds to DGS' Architecture Revolving Fund (ARF) for the construction, alteration, repair, and improvement of State buildings.¹⁵ However, Federal regulations require the State to comply with other Federal laws and regulations in carrying out its disability determination services, such as Treasury regulations on the draw down of Federal funds.¹⁶ The CMIA agreement prohibits the draw down and transfer of Federal funds to the ARF for projects started after May 1, 1999. Instead, it requires the State to draw down Federal funds each month based on actual expenditures. In addition, the State shall incur an interest liability on any Federal funds drawn in advance of expenditures.¹⁷

In FY 2000, SSA authorized \$1,284,803 in funding for two projects. These projects included \$821,803 for the electrical retrofit of 10 branch offices and \$463,000 for facility improvements at the Roseville branch office. Although CADDs obligated the funds for these projects in FY 2000, both projects were not scheduled for completion until subsequent FYs.

In September 2000, DSS transferred \$1,284,803 of State funds to the ARF for the two projects. In February 2001, DSS withdrew \$1,284,803 of SSA funds to reimburse the State for its prior transfer. Since expenditures are required for the draw down of Federal funds, DSS entered an expenditure in its accounting records for \$1,284,803. However, as of March 2001, DSS disbursed only \$8,136 of expenditures for both projects. Therefore, DSS withdrew \$1,276,667 of Federal funds in advance of expenditures for these projects.

As of March 2002, DSS had disbursed \$26,816 of expenditures for the two projects, thereby leaving a principal balance of \$1,257,987. Using the average annualized yield for 13-week Treasury bills, we determined that DSS should pay \$43,156 in lost interest for March 2001 through March 2002. For both projects, DSS should also return the unused funds in the ARF to the Federal Government.

¹⁵ California Government Code, section 14957.

¹⁶ 20 C.F.R. §§ 404.1632 and 416.1032.

¹⁷ State FY 2000-2001 CMIA Agreement, section 9.7.15.

Draw Down of Federal Funds

DSS withdrew Federal funds for expenditures for the incorrect FYs. This occurred, in part, because DSS did not request additional funding authority from SSA. Although these funds were subsequently returned to the applicable grants, DSS should not have used the funds of 1 FY to pay for the expenditures of another FY. As a result, DSS needs to improve its accountability over Federal funds to ensure that such funds are drawn for authorized purposes only.

Federal laws state that the balance of an appropriation or fund limited for obligation to a definite period is available only for expenditures properly incurred during the period of availability. The appropriation or fund is not available for expenditures beyond the period otherwise authorized by law.¹⁸

Each month, DSS obtains two cash draws through Treasury's ASAP system to pay CADDs for necessary expenditures in performing its disability determinations. SSA is responsible for establishing, maintaining, and funding the CADDs accounts in the ASAP system. The State may obtain cash draws only for expenditures within the applicable grant period.

Our review disclosed that the SSA regional office did not monitor the draw down of funds to ensure compliance with Federal laws. We found that DSS withdrew funds from prior grants to pay for current expenditures. For example, on October 26, 1998, DSS withdrew \$5,000,000 from the FY 1998 grant to cover FY 1999 expenditures. DSS returned these funds to the FY 1998 grant on December 17, 1998. In addition, DSS withdrew funds from current grants to pay for prior expenditures. For example, on November 2, 1998, DSS withdrew \$9,744,578 from the FY 1999 grant to cover FY 1998 expenditures and adjustments. DSS returned these funds to the FY 1999 grant on December 17, 1998.

UNLIQUIDATED OBLIGATIONS

CADDs reported unliquidated obligations in excess of supporting expenditures. Unliquidated obligations are cost commitments for goods and services that have not been paid. This finding was reported in our prior audits for (1) FYs 1995 and 1996, (2) FYs 1992 and 1993, and (3) FYs 1987 through 1989. CADDs agreed with our recommendations but continued to use ineffective methods for estimating its unliquidated obligations. As a result, CADDs overstated its unliquidated obligations by \$5,708,314 for FYs 1999 and 2000. Since CADDs retained the unliquidated obligations until after the end of the FY, SSA was unable to deploy these funds for other needs in administering its disability program.

¹⁸ 31 U.S.C. § 1502.

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 review unliquidated obligations at least once each month to cancel those no longer valid. In addition, State agencies are required to provide narrative reports on the status of unliquidated obligations with the quarterly Form SSA-4513.¹⁹ These unliquidated obligations include medical, nonpersonnel, indirect, and personnel costs. The following table summarizes the unliquidated obligations in excess of supporting costs at the end of FYs 1999 and 2000.

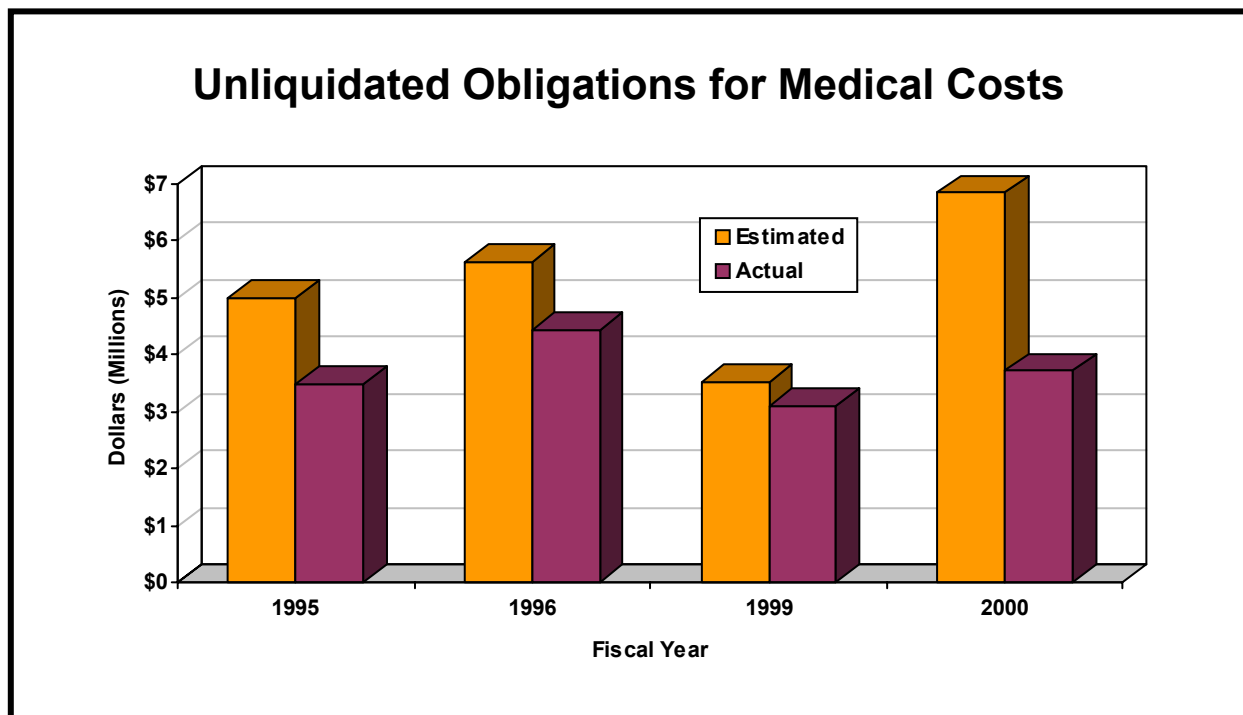
Unliquidated Obligations in Excess of Supporting Costs			
<u>Category</u>	<u>FY 1999</u>	<u>FY 2000</u>	<u>Total</u>
Medical Costs	\$442,985	\$3,123,109	\$3,566,094
Nonpersonnel Costs	1,247,770	508,637	1,756,407
Indirect Costs	320,001	208,428	528,429
Personnel Costs	53,072	(195,688)	(142,616)
Total	\$2,063,828	\$3,644,486	\$5,708,314

Medical Costs

CADDS obtained data from MIDAS and California State Accounting and Reporting System (CALSTARS) to estimate its unliquidated obligations for medical costs. Because of timing differences, this methodology did not produce accurate estimates. In addition, CADDS stated that it did not always deobligate funds for cancelled medical appointments. Since funds are obligated when the appointments are scheduled, they should be deobligated when the appointments are cancelled. As a result, CADDS overstated its unliquidated obligations by \$3,566,094 for FYs 1999 and 2000.

For example, at the end of FY 2000, CADDS estimated its unliquidated obligations for medical costs were \$6,836,604. However, we determined that CADDS only needed \$3,713,495, which represents actual expenditures of \$3,701,059 plus valid encumbrances of \$12,436 as of September 30, 2001. This resulted in excess unliquidated obligations of \$3,123,109. The following chart illustrates the estimated and actual medical costs reported in the current and prior audits.

¹⁹ POMS, section DI 39506.203.



Nonpersonnel Costs

CADDs relied on historical data to estimate its unliquidated obligations for nonpersonnel costs. However, CADDs stated that it did not always adjust its estimate to (1) exclude nonrecurring costs from the prior FY, (2) include only those recurring costs allocable to the current FY, and (3) deobligate funds for planned purchases which were subsequently cancelled. As a result, CADDs overstated its unliquidated obligations by \$1,756,407 for FYs 1999 and 2000.

For example, at the end of FY 1999, CADDs estimated its unliquidated obligations for nonpersonnel costs were \$3,079,820. However, we determined that CADDs only needed \$1,832,050, which represents actual expenditures of \$1,769,766 plus valid encumbrances of \$62,284 as of September 30, 2001. This resulted in excess unliquidated obligations of \$1,247,770.

Indirect Costs

CADDs used ineffective methods to estimate its unliquidated obligations for indirect costs. Specifically, CADDs stated that its estimates were based, in part, on the total encumbrances for indirect costs and unliquidated obligations for personnel costs. CADDs relied on such estimates because CALSTARS did not provide a record of unliquidated obligations for indirect costs at the end of the FY. As a result, CADDs overstated its unliquidated obligations by \$528,429 for FYs 1999 and 2000.

For example, at the end of FY 1999, CADDs estimated its unliquidated obligations for indirect costs were \$742,680. However, we determined that CADDs only needed \$422,679, which represents actual expenditures of \$400,770 plus valid encumbrances of \$21,909 as of September 30, 2001. This resulted in excess unliquidated obligations of \$320,001.

ACCESS CONTROLS

DSS needs to improve its access controls over computer security. These controls included the monitoring of MIDAS transactions and safeguards over employee workstations. Details are provided below.

MIDAS Transactions

CADDs did not adequately monitor the transactions of employees with unlimited access to MIDAS. This finding was reported in our prior audit for FYs 1995 and 1996. CADDs agreed with our recommendations and implemented controls to track MIDAS transactions. However, CADDs did not follow up to review such transactions on an ongoing basis. As a result, CADDs needs to strengthen its access controls over MIDAS to minimize the risk of unauthorized transactions.

SSA's procedures require the use of audit trails to monitor and review systems transactions. These audit trails must be designed, implemented, and maintained to enforce individual accountability so that transactions may be traced to the user initiating the action.²⁰

MIDAS is the computer program for processing disability claims in California. The CADDs computer system consists of a network of seven AS400 mainframe systems. CADDs uses MIDAS to connect computer workstations to SSA's Intelligent Workstation/Local Area Network (IWS/LAN). CADDs limits access in MIDAS through user profiles and personal passwords. These controls restrict users to specific activities within MIDAS and provide for separation of duties (that is, users who initiate contracts are not allowed to authorize payment of contracts). However, security officers retain the ability to (1) enter data into MIDAS data bases, (2) generate, edit, and delete files, and (3) modify systems security files.

In our prior audit, we reported that CADDs had not established adequate safeguards to identify, monitor, and review the transactions of employees with unlimited access to MIDAS. CADDs subsequently reduced the number of security officers with unlimited access from 25 to 20 employees. Of this amount, only five security officers retain access to all seven AS400 mainframe systems. These employees could establish false identities for claimants or vendors and generate fictitious transactions that would not otherwise be detected or prevented through normal MIDAS operations.

²⁰ SSA, *Systems Security Handbook*, chapter 12, section D.

CADDS developed a tracking log to record the transactions of all employees and implemented systems modifications to identify employees who authorized transactions for payment. However, we found that CADDS did not review the transactions of security officers and had not maintained the tracking log for over 2 years. Furthermore, CADDS did not review the transactions of employees who authorized payments within MIDAS. We believe that CADDS should review the propriety of these transactions on a recurring basis to prevent errors and irregularities.

Employee Workstations

CADDS did not implement an automatic lock to secure all employee workstations after a period of nonuse. Since CADDS does not maintain a uniform systems policy, employees may deactivate or remove the automatic lock from their workstations and adjust the length of time before it is activated. As a result, CADDS needs to strengthen its systems controls to protect against the unauthorized disclosure, manipulation, or destruction of sensitive data.

SSA's procedures require the DDS to install an automatic lock on all IWS/LAN workstations. Specifically, the DDS should use a standardized screensaver to automatically lock the workstation when not in use for 20 minutes. Employees must enter a personal identification number or password to reactivate their access to the workstation. In addition, all employees are required to lock or log off their workstations before leaving them unattended.²¹

During our audit, we observed that a number of CADDS employees had not implemented the automatic lock in their workstations. This undermines the security of the system and compromises the integrity of sensitive data. In addition, we observed that a number of CADDS employees did not lock or log off their workstations before leaving their desks. Since employee workstations were unsecured and unattended, there is an increased risk that data or programs may be altered, deleted, or replaced.

CADDS should improve its procedures to preclude unauthorized access to idle workstations, thereby reducing the potential for fraud, waste, and abuse. In August 2002, the SSA regional office issued a memorandum to require CADDS to implement SSA's systems policy, including an automatic lock and uniform configuration settings for each workstation. During our audit, CADDS was in the process of implementing this policy at 1 of its 12 branch offices.

²¹ SSA, *Systems Security Bulletin*, October 13, 1999, and *Systems Security Handbook*, chapter 10, section B.

Conclusions and Recommendations

Our review of administrative costs disclosed that DSS had overstated its disbursements by \$6,872,503 for October 1996 through March 2002. This occurred because DSS charged unallowable medical, nonpersonnel, and indirect costs to SSA's programs. We also found that DSS had overstated its unliquidated obligations by \$5,708,314 for FYs 1999 and 2000. As a result, DSS overreported its total obligations to SSA by \$12,580,817 (see Appendix A). In addition, DSS needs to improve its cash management practices and access controls over computer security.

We recommend that SSA:

MEDICAL COSTS

1. Improve its oversight of CE fees and limit future payments to the highest rate allowable by Federal or other agencies in the State.
2. Encourage CADDs to adopt the AMA's coding system to provide a crosswalk between the DDS and Medicare fees for the same or similar types of service.
3. Instruct DSS to provide supporting documentation for its expansion of the fee increase from six specialty examinations to all specialty examinations during FYs 1999 through 2001.
4. Clarify its procedures to ensure any changes in DDS fee schedules are reviewed in a timely manner.
5. Determine the propriety of CE fees for x-rays, laboratory tests, and other medical services during FYs 1999 through 2001 and recover any unallowable costs.
6. Work with CADDs to evaluate the reasonableness of its fee schedule and ensure the payment rates are adequate to obtain medical or other services necessary for determinations of disability.
7. Instruct DSS to refund \$167,564 of unallowable costs for duplicate payments related to medical records and services during FYs 1997 through 2001.
8. Ensure CADDs reviews the claimant's case history before ordering any medical records or services to avoid multiple requests for the same information.

9. Ensure CADDs withholds payments for duplicate medical records or services until the branch offices review the exception reports and resolve any questionable transactions.
10. Instruct DSS to refund \$12,671 of unallowable costs for review of records during FYs 1998 through 2001.

NONPERSONNEL COSTS

11. Instruct DSS to refund \$1,694,079 of unallowable rental costs from the Oakland and San Diego branches for March 1999 through February 2002.
12. Ensure CADDs monitors rental costs for the Oakland and San Diego branches so that future rates do not exceed the amounts in the prior leases.
13. Instruct DSS to refund \$252,371 of unallowable nonpersonnel costs from the Adult Programs Branch for October 1998 through June 2001.
14. Instruct DSS to refund \$232,299 of unallowable rental and security costs from the Information Technology Projects Bureau for May 1998 through June 2001.
15. Instruct DSS to refund \$105,061 of unallowable telephone costs from the Los Angeles State Programs Branch for August 1998 through February 2001.
16. Instruct DSS to refund \$41,752 of unallowable rental costs from the Central Support Services Branch and DAPD Support Bureau for October 1999 through June 2001.
17. Instruct DSS to refund \$37,168 of unallowable rental costs from the State Programs Quality Assurance Branch for August 1998 through November 1999.
18. Ensure CADDs periodically reviews its accounting records to identify incorrect charges to SSA's programs.
19. Instruct DSS to provide training in the proper method of charging nonpersonnel costs to SSA's programs. Such training should include the Central Support Services Branch, Information Technology Projects Bureau, and Business and Financial Services Bureaus.

INDIRECT COSTS

20. Instruct DSS to periodically review the DOF website for any revisions to the proposed statewide indirect costs.
21. Instruct DSS to refund \$503,227 of unallowable departmental indirect costs from the Information Systems Division for May 1998 through March 1999.

22. Instruct DSS to refund \$381,164 of unallowable departmental and statewide indirect costs for March 1999 through June 2001.
23. Instruct DSS to refund \$281,154 of unallowable special administrative indirect costs for March 1999 through March 2002.

CASH MANAGEMENT

24. Instruct DSS to refund \$128,071 of uncollected funds from the cancellation of unnegotiated warrants for January 1999 through June 2001.
25. Instruct DSS to establish procedures to recover the proceeds from unnegotiated warrants and refund such amounts to the applicable Federal grants.
26. Instruct DSS to pay \$43,156 of lost interest for the premature draw down of Federal funds for March 2001 through March 2002.
27. Instruct DSS to return any unused SSA funds in the ARF to the Federal Government.
28. Periodically monitor the draw down of funds to ensure compliance with Federal laws.
29. Instruct DSS to discontinue the practice of drawing funds from 1 FY to pay for the expenditures of another FY.

UNLIQUIDATED OBLIGATIONS

30. Ensure CADDs deobligates any unliquidated obligations that are not supported by valid documentation for FYs 1999 and 2000.
31. Ensure CADDs improves the methods used to record unliquidated obligations so that future estimates more accurately reflect the amounts needed for valid expenditures.
32. Ensure CADDs reviews unliquidated obligations on a monthly basis after the end of the FY.

ACCESS CONTROLS

33. Ensure CADDs monitors and reviews the transactions of security officers on a recurring basis.
34. Ensure CADDs establishes procedures to require employees to lock or log off their workstations before leaving them unattended.

35. Verify whether CADDs implemented an automatic lock to safeguard employee workstations in its branch offices.

SSA/DSS COMMENTS AND OIG RESPONSE

In its response, SSA generally agreed with 34 of the original 37 recommendations. DSS generally agreed with 22 recommendations, disagreed with 14 recommendations, and did not comment on 1 recommendation. Based on their comments, we deleted 2 of the original 37 recommendations and revised another 8 recommendations. In addition, we incorporated a number of technical comments into the report. As of March 2003, DSS refunded \$2,364,702 in unallowable costs to SSA and agreed to refund \$1,171,878 in additional costs questioned by our audit. A summary of SSA's and DSS' comments, along with our responses, is provided below. The full text of SSA's comments is included in Appendix C. Because of the length of DSS' comments, we did not include the full text as an appendix. A copy of DSS' comments may be obtained by written request to SSA/OIG/Office of Audit in Baltimore, Maryland.

MEDICAL COSTS

Our audit disclosed that DSS claimed unsupported medical costs that were charged to SSA's programs. These costs included fee increases for specialty examinations; x-rays, laboratory tests, and other services; duplicate payments for MERs and CEs; and review of records fees.

SSA Comments

SSA generally agreed with many of our recommendations. SSA agreed that CADDs should improve its oversight of CE fees and limit reimbursement to the highest rate paid by Federal or other agencies in the State. SSA also agreed that CADDs should (1) adopt the AMA's coding system to provide a crosswalk between DDS and Medicare fees, (2) review the claimant's case history before ordering medical records or services, and (3) withhold payments for duplicate medical records or services until exception reports are reviewed. In addition, SSA agreed to work with CADDs to improve its fee schedule.

However, SSA disagreed with our use of Medicare fees for each of the 10 localities in California to quantify our findings. SSA stated that a single fee schedule is allowable, with the absolute maximum fee being the highest fee charged in the State. SSA also suggested that we recalculate the finding using the highest locality rate in California. Because of the lack of specific guidance, SSA agreed with our recommendation to strengthen procedures for reviewing DDS fee schedules but disagreed with our recommendation to recover unallowable costs for other specialty examinations performed by board certified or eligible physicians.

DSS Comments

DSS disagreed with our recommendations. DSS questioned our use of CPT code 99243 for the specialty examinations performed by board certified or eligible physicians. Instead, DSS stated that CADDs had selected CPT code 99204 for these examinations. Accordingly, DSS stated that its \$121 fee for specialty examinations was below the acceptable Medicare fee of \$126.94 for CPT code 99204. DSS concluded that its medical fees did not exceed the highest rate paid by Federal or other agencies in the State for the same or similar types of service.

DSS also stated that CADDs had notified the RO of its fee increase for other specialty examinations. Since CADDs paid these fees on behalf of SSA's disability program, DSS suggested that we revise our recommendation to request additional documentation or explanation for the increased fees rather than recover any unallowable costs. Moreover, DSS acknowledged that CADDs had experienced difficulty in recruiting medical specialists because its reimbursement rates were below those of many adjacent States.

In addition, DSS stated that CADDs was unable to determine whether the excessive fees for x-rays, laboratory tests, and other medical services and duplicate payments for MERs and CEs were unallowable. Furthermore, DSS stated that it reviewed the cases involving excessive fees for review of records and concluded these payments were not in error. DSS questioned our sampling methodology and stated that any alleged errors were attributable to the normal cost of doing business and, therefore, were not subject to repayment.

OIG Response

Based on SSA's and DSS' comments, we deleted two recommendations and revised another eight recommendations. We used CPT code 99204 to recalculate our finding for the six specialty examinations performed by board certified or eligible physicians. Using the applicable Medicare fees for each of the 10 localities in California, we determined that CADDs disbursed \$1,275,008 in excess of the allowable Medicare fees. Using the Medicare fee for the highest locality in California, CADDs still disbursed \$208,869 in excess of the allowable Medicare fees. Therefore, we encourage SSA to improve its oversight of CE fees.

We also reported that CADDs disbursed \$625,631 in excess of the allowable Medicare fees for its x-rays, laboratory tests, and other medical services. Our calculation was based on the applicable Medicare fees for each of the 10 localities in California. Using the Medicare fee for the highest locality in California, CADDs still disbursed \$438,474 in excess of the allowable Medicare fees. However, we believe that CADDs should not adopt a single fee schedule for the State because it contradicts Federal regulations and ignores the use of multiple localities to correlate payment rates with the prevailing cost of services in those areas.

Accordingly, we disagree with DSS' position that its \$121 fee for specialty examinations was below the acceptable Medicare fee of \$126.94 for CPT code 99204. The \$126.94 rate is applicable to the San Francisco locality. In Calendar Year 1999, only 4,343 (2.6 percent) of the 166,193 specialty examinations were performed in the San Francisco locality. Since these examinations vary in length and complexity, we encourage SSA to work with DSS to evaluate the reasonableness of its fee schedule and determine the applicability of one CPT code for all specialty examinations.

Based on the additional information provided by DSS, we revised our finding for review of records fees. If sample invoice 60 actually represented a payment for a missed examination where the vendor reviewed the MER prior to the appointment, then we agree the payment was allowable. Nevertheless, the remaining sample invoices were not related to missed appointments or OHA cases. Projecting these errors to our population, we estimate that CADDs disbursed at least \$12,671 in erroneous payments for review of records (see Appendix B).

Although we provided DSS with supporting documentation during our audit, we are available to further discuss the rationale and methodology used to quantify our findings. We reaffirm our position that our sampling methodology and projections are statistically valid, as required under generally accepted government auditing standards. Overall, we believe our recommendations, as revised, are reasonable and should be implemented. We encourage SSA and DSS to work closely to ensure that CADDs strengthens its controls over the accounting and reporting of medical costs.

NONPERSONNEL COSTS

Our audit disclosed that DSS claimed unallowable nonpersonnel costs that did not benefit SSA's programs. These costs included nonpersonnel costs from the Oakland and San Diego Branches, Adult Programs Branch, Information Technology Projects Bureau, Los Angeles State Programs Branch, Central Support Services Branch and DAPD Support Bureau, and State Programs Quality Assurance Branch.

SSA Comments

SSA agreed with our recommendations.

DSS Comments

DSS agreed with our recommendations. DSS stated that it had refunded \$1,694,079 of excessive rental costs from the Oakland and San Diego branches. For the other components, DSS agreed to refund \$668,651 of unallowable costs questioned by our audit. In addition, DSS agreed to provide training to its employees and stated that CADDs is in the process of developing a system to monitor the propriety of nonpersonnel costs charged to SSA's programs.

OIG Response

SSA's and DSS' planned actions addressed our recommendations.

INDIRECT COSTS

Our audit disclosed that DSS claimed unallowable indirect costs that did not benefit SSA's programs. These costs included statewide, departmental, and special administrative indirect costs.

SSA Comments

SSA agreed with our recommendations.

DSS Comments

DSS agreed with two of our four recommendations. DSS agreed to refund \$503,227 of unallowable costs from the Information Systems Division and periodically monitor the DOF website for any revisions to the statewide indirect costs. However, DSS disagreed with our recommendations to refund \$381,164 of unallowable departmental and statewide indirect costs and \$281,154 of unallowable special administrative indirect costs. Specifically, DSS stated that HHS, Division of Cost Allocation, had approved its Cost Allocation Plans for July 1998 through June 2001, which included the special administrative indirect cost pool and defined the guidelines for its use. In addition, DSS stated that special administrative indirect costs may be allocated to SSA's programs by components outside of DAPD because such costs are derived from direct charges.

OIG Response

We do not agree with DSS. First, although HHS approved the Cost Allocation Plans, DSS subsequently revised its methodology for allocating indirect costs and did not include the revision in these plans. Therefore, HHS did not approve the revised cost allocation methodology, which resulted in an inequitable distribution of departmental and statewide indirect costs to SSA. This occurred because the allocation base used to distribute departmental and statewide indirect costs did not include the salaries from the special administrative indirect cost pool. As a result, DSS allocated departmental and statewide indirect costs to SSA's programs that should have been allocated to non-SSA programs only.

Second, the allocation of special administrative indirect costs to SSA's programs is contrary to Federal cost standards, which state that expenditures may be allocated to a particular program if the goods or services are charged in accordance with the relative benefits received. DSS established the special administrative indirect cost pool to accumulate the costs of activities that benefit non-SSA programs only. By definition, SSA's programs did not receive any benefits from these expenditures. As a result, DSS

allocated special administrative indirect costs to SSA's programs that should have been allocated to non-SSA programs only.

CASH MANAGEMENT

Our audit disclosed that DSS needs to improve its cash management practices. These practices included the collection of funds from unnegotiated warrants, use of SSA funds to replenish State funds, and proper draw down of Federal funds.

SSA Comments

SSA generally agreed with our recommendations. However, SSA stated that its Office of Finance monitors the draw down of funds centrally. In addition, SSA stated that such monitoring may be difficult to implement locally because of potential problems with accessing and using Treasury's ASAP system.

DSS Comments

DSS agreed with five of our six recommendations. DSS stated that it already refunded \$128,071 from the cancellation of unnegotiated warrants and implemented procedures to return uncollected funds to the applicable Federal grants. DSS also stated that it requested DOF to include the premature draw down of funds in its calculation of the appropriate interest liability payment. In addition, DSS agreed to work with the State Department of General Services and SSA to return any remaining funds in the ARF to the Federal Government. DSS disagreed with our recommendation to discontinue the practice of drawing funds from 1 FY to pay for the expenditures of another FY. DSS stated that these draw downs were necessary because of the unavailability of funds from other sources during periods of Federal continuing resolutions.

OIG Response

SSA's and DSS' planned actions generally addressed our recommendations. Since SSA was unaware of the improper draw down of funds, we believe it should explore options for monitoring the draw downs to ensure compliance with Federal laws. We also believe that DSS should work with SSA when additional funding is needed for its disability program.

UNLIQUIDATED OBLIGATIONS

Our audit disclosed that CADDs reported unliquidated obligations in excess of supporting expenditures. These unliquidated obligations included medical, nonpersonnel, and indirect costs.

SSA Comments

SSA agreed with our recommendations. Although SSA agreed that DSS could improve its review of unliquidated obligations after the end of the FY, it stated that these reviews could be performed on a quarterly rather than monthly basis.

DSS Comments

DSS agreed with our recommendations. DSS stated that CADDs has identified and corrected errors in its procedures for estimating unliquidated obligations. DSS also stated that it reviews unliquidated obligations on a monthly basis and has substantially reduced its obligations for the current and prior years.

OIG Response

SSA's and DSS' planned actions addressed our recommendations.

ACCESS CONTROLS

Our audit disclosed that DSS needs to improve its access controls over computer security. These controls included the monitoring of MIDAS transactions and safeguards over employee workstations.

SSA Comments

SSA agreed with our recommendations.

DSS Comments

DSS agreed with our recommendations. DSS stated that CADDs monitors (1) the on-site security audits and Comprehensive Integrity Review program reviews conducted by local security officers, and (2) the assignment of user profiles, passwords, and personal identification numbers. In addition, DSS stated that CADDs installed an automatic lock to log off idle workstations after 20 minutes in all offices statewide.

OIG Response

SSA's and DSS' planned actions generally addressed our recommendations. However, to protect against the unauthorized disclosure, manipulation, or destruction of sensitive data, we encourage CADDs to remind employees to lock or log off their workstations before leaving them unattended.

Appendices

Summary of Monetary Results

<u>Description</u>	<u>Amount</u>
Medical Costs	
▪ Fee Increase for Six Specialty Examinations	\$1,275,008
▪ Fee Increase for Other Specialty Examinations	549,575
▪ X-Rays, Laboratory Tests, and Other Services	625,631
▪ Duplicate Payments for MERs and CEs	167,564
▪ Review of Records Fees	12,671
Nonpersonnel Costs	
▪ Oakland and San Diego Branches	1,694,079
▪ Adult Programs Branch	252,371
▪ Information Technology Projects Bureau	232,299
▪ Los Angeles State Programs Branch	105,061
▪ Central Support Services Branch and DAPD Support Bureau	41,752
▪ State Programs Quality Assurance Branch	37,168
Indirect Costs	
▪ Statewide Indirect Costs	542,552
▪ Departmental Indirect Costs	503,227
▪ Cost Allocation Methodology	381,164
▪ Special Administrative Indirect Costs	281,154
Cash Management	
▪ Unnegotiated Warrants	128,071
▪ Use of SSA Funds to Replenish State Funds	43,156
Unliquidated Obligations	<u>5,708,314</u>
Total	<u>\$12,580,817</u>

Sampling Methodology

We obtained data extracts from the Modernized Interim Disability Adjudication System to identify duplicate or erroneous payments for medical costs. Specifically, we selected a random sample of (1) invoices for medical evidence of records (MER) during Fiscal Years (FY) 1997 through 2001, and (2) invoices for review of records (ROR) during FYs 1998 through 2001. For the MER data extract, we identified invoices with matching Social Security numbers, vendor numbers, invoice amounts, case numbers, and less than 3 months between payment dates. For the ROR data extract, we identified invoices with fee codes “99080REV” and “99080OHA” that were not related to missed appointments or Office of Hearings and Appeals cases.

Based on a random sample of 100 MER invoices, we found that CADDs disbursed \$1,034 in duplicate payments for FYs 1997 through 2001. Projecting these results to our population of 14,605 MER invoices, we estimate that CADDs disbursed at least \$121,342 in duplicate payments during this period. In addition, based on a random sample of 100 ROR invoices, we found that CADDs disbursed \$160 in erroneous payments for FYs 1998 through 2001. Projecting these results to our population of 18,178 ROR invoices, we estimate that CADDs disbursed at least \$12,671 in erroneous payments during this period. The following tables provide the details of our population, sample results, and statistical projections.

Table 1 – Population Description

Population	Population Count	Population Dollars
Duplicate MERs	14,605	\$260,158
ROR Fees	18,178	365,337

Table 2 – Sample Results

Sample	Sample Size	Error Count	Error Dollars
Duplicate MERs	100	52	\$1,034
ROR Fees	100	8	160

Table 3 – Statistical Projection of Sample Results

Projection	Duplicate MERs	ROR Fees
Point Estimate	\$151,089	\$29,085
Lower Limit	121,342	12,671
Upper Limit	180,835	45,499

All statistical projections are reported at the 90 percent confidence level.

SSA Comments



SOCIAL SECURITY

MEMORANDUM

Date: March 11, 2003

Refer To: S2D9G4

To: Assistant Inspector General
for Audit

From: Assistant Regional Commissioner
Management and Operations Support
San Francisco

Subject: Audit of Administrative Costs Claimed by the California Disability Determination Services (A-09-02-22022)--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 37 recommendations contained in the draft report.

We are not able to determine the reasonableness of some of the recommendations without reviewing the State response. For such recommendations we have indicated "We agree pending the State response." We may submit additional comments after considering the State response.

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. Although we may have issues with some of the recommendations, we agree that the findings indicate areas needing improvement in the DDS or in SSA's DDS oversight.

If you have any questions regarding our comments, please call me. If staff have any questions, they may call Diane Trewin in the Center for Disability at (510) 970-8295.

/s/
Ron Sribnik for
Patrick E. Sheehan

Attachment

Regional Office Comments on the California DDS Draft Audit Report

Recommendation 1: Evaluate the reasonableness of \$3,119,977 in fees for the six specialty examinations performed by board certified or eligible physicians during FYs 1999 through 2001.

Comment: We cannot make a reasonableness determination until California identifies the CPT equivalency for these specialty examination CEs. It is conjecture only that they equate to the 99243 code. Since a recent DDS fee schedule proposal identifies a more extensive examination (99204) for their specialty examination CE, it is likely that the 99243 code is not the appropriate code.

During a recent discussion with OIG regional staff, they stated that the Medicare fees they used to compute the \$3,119,977 were based on the locality of each exam. And yet, the Medical Procedures Fee Schedule Workgroup Report of 1999, quoted in the body of the draft audit report, states “If the State has multiple Medicare localities, the highest fee paid by any of the localities is the upper limit for the DDS fee schedule. It is not necessary to create a different DDS fee schedule for each locality.”

Since POMS does not address the upper fee limit in States with multiple localities and we have never provided California with specific guidance, it would not be appropriate to apply the stricter standard retroactively. We do not think that setting a different fee limit for each locality is the only reasonable standard. We believe the logistics of implementing different fee schedules for each locality might be so onerous that such a policy would be unsupportable.

Recommendation 2: Ensure CADDs improves its oversight of CE fees and limits reimbursement to the highest rate paid by Federal or other agencies in the State.

Comment: We find this recommendation reasonable.

Recommendation 3: Ensure CADDs adopts the AMA’s coding system to provide a crosswalk between the DDS and Medicare fees for the same or similar types of service.

Comment: While we agree that use of the AMA coding system is recommended, based on the current regulations and wording in POMS, we cannot require the DDS to use this system. We suggest a recommendation that requires CADDs to use the AMA coding system or develop an alternate method of providing a crosswalk between the DDS fee schedule and the maximum allowable fee.

Recommendation 4: Instruct DDS to refund \$549,575 of unallowable costs for the other specialty examinations performed by board certified or eligible physicians during FYs 1999 through 2001.

Comment: While we agree that a clarification of existing guidelines regarding DDS fee schedules is needed, we do not agree with the recommendation to request a refund. A refund request is not appropriate because:

- a. The RO did receive a copy of the internal DDS memo that was dated before the effective date of the increase. It is not appropriate to base the refund request on 'lack of adequate notification' because we received information from the DDS on the change and neither POMS nor the RO has ever specified what constitutes notification. POMS states that 'The DDS will submit a copy to the regional office, Professional Relations Coordinator' once they determine a new fee. It appears the DDS complied with the current instructions.
- b. The POMS section that refers to DDS fee schedules, DI 39545.210, gives the DDS the responsibility to determine the fee schedule.

Recommendation 5: Ensure CA DDS discontinues the payment of increased fees for the other specialty examinations performed by board-certified or eligible physicians.

Comment: While we are currently working with the DDS to improve their fee schedule, based on the current regulations and POMS, it is ultimately a DDS management decision whether they continue to pay the board-certified fee.

In the fall of 2002, California proposed an increase in their fee schedule that includes eliminating the extra \$25 fee for board certified/eligible status. It would also conform to the CPT coding for all exams. We are working with them on this proposal and the resulting budgetary impact.

Recommendation 6: Initiate action to strengthen its procedures over reviewing and approving any changes in DDS fee schedules.

Comment: While we agree with the recommendation to strengthen procedures related to reviewing DDS fee schedules, the regulations and POMS do not require SSA approval to set or make changes to the fee schedule. Furthermore, we do not support a change in the regulations to require approval but instead support a clarification of existing procedures as well as better oversight by both the DDS and the SSA regional office.

As with all DDS management decisions that have a significant budgetary impact, the DDS works closely with the regional office to ensure adequate funding exists. For example, the DDS fee schedule change proposal that was submitted in early FY 2003, mentioned in our comment above for Recommendation #5, would

eliminate the board-certified fee, but also would significantly increase total medical spending. Although the State could properly decide to implement without getting approval from SSA, there would be no guarantee of the additional funding needed. This led to their decision to submit the proposal to gain our support before implementation. We believe that the current division of responsibility, with the DDS setting the fee schedule and SSA controlling the funding, works well.

Recommendation 7: Instruct DSS to refund \$625,631 of unallowable costs for CEs during FYs 1999 through 2001.

Comment: As in the comments to Recommendation # 1 above, based on discussion with OIG staff, we question the use of locality specific Medicare rates rather than the highest rate used in California. We suggest that OIG recalculate the amounts based on the fee for the highest State locality in order to determine if there are unallowable costs. Also, we would like to review the State response before considering the reasonableness of the refund request.

Recommendation 8: Ensure CADDs modifies its fee schedule so that fees paid do not exceed the highest rate paid by Federal or other agencies in the State.

We agree pending the State response.

Recommendation 9: Instruct DSS to refund \$167,564 of unallowable costs for duplicate payments related to medical records and services during FYs 1997 through 2001.

Comment: This recommendation appears reasonable but we would like to see the State response.

Recommendation 10: Ensure CADDs establishes procedures to review the claimant's case history before ordering any medical records or services to avoid multiple requests for the same information.

Comment: Our understanding is the State already has an established procedure. The DDS is doing a reasonably good job in this area based on the fact they spent over \$220 million on medical expenses over the five year period covered by this finding, with the estimated duplicate payments representing less than a tenth of one percent.

Recommendation 11: Ensure CADDs withholds payments for duplicate medical records or services until the branch offices review the exception reports and resolve any questionable transactions.

Comment: We agree pending the State response.

Recommendation 12: Instruct DSS to refund \$15,406 of unallowable costs for review of records during FYs 1998 through 2001.

Comment: We agree pending the State response.

Recommendation 13: Instruct DSS to refund \$1,694,079 of unallowable rental costs from the Oakland and San Diego branches for March 1999 through February 2002.

Comment: We agree pending the State response.

Recommendation 14: Ensure CADDs monitors rental costs for the Oakland and San Diego branches so that future rates do not exceed the amounts in the prior leases.

Comment: We agree pending the State response.

Recommendation 15: Instruct DSS to refund \$252,371 of unallowable nonpersonnel costs from the Adult Programs Branch for October 1998 through June 2001.

Comment: We agree pending the State response.

Recommendation 16: Instruct DSS to refund \$232,299 of unallowable rental and security costs from the Information Technology Projects Bureau for May 1998 through June 2001.

Comment: We agree pending the State response.

Recommendation 17: Instruct DSS to refund \$105,061 of unallowable telephone costs from the Los Angeles State Programs Branch for August 1998 through February 2001.

Comment: We agree pending the State response.

Recommendation 18: Instruct DSS to refund \$41,752 of unallowable rental costs from the Central Support Services Branch and DAPD Support Bureau for October 1999 through June 2001.

Comment: We agree pending the State response.

Recommendation 19: Instruct DSS to refund \$37,168 of unallowable rental costs from the State Programs Quality Assurance Branch for August 1998 through November 1999.

Comment: We agree pending the State response.

Recommendation 20: Ensure CADDs periodically reviews its accounting records to identify incorrect charges to SSA's programs.

Comment: We agree pending the State response.

Recommendation 21: Instruct DSS to provide training in the proper method of charging nonpersonnel costs to SSA's programs. Such training should include the Central Support Services Branch, Information Technology Projects Bureau, and Business and Financial Services Bureaus.

Comment: We agree pending the State response.

Recommendation 22: Instruct DSS to periodically review the DOF website for any revisions to the proposed statewide indirect costs.

Comment: We agree pending the State response.

Recommendation 23: Instruct DSS to refund \$503,227 of unallowable departmental indirect costs from the Information Systems Division for May 1998 through March 1999.

Comment: We agree pending the State response.

Recommendation 24: Instruct DSS to refund \$381,164 of unallowable departmental and statewide indirect costs for March 1999 through June 2001.

Comments: We agree pending the State response.

Recommendation 25: Instruct DSS to refund \$281,154 of unallowable special administrative indirect costs for March 1999 through March 2002.

Comments: We agree pending the State response.

Recommendation 26: Instruct DSS to refund \$128,071 of uncollected funds from the cancellation of unnegotiated warrants for January 1999 through June 2001.

Comments: We agree pending the State response.

Recommendation 27: Instruct DSS to establish procedures to recover the proceeds from unnegotiated warrants and refund such amounts to the applicable Federal grants.

Comments: We agree pending the State response.

Recommendation 28: Instruct DSS to pay \$43,156 of lost interest for the premature draw down of Federal funds for March 2001 through March 2002.

Comments: We agree pending the State response.

Recommendation 29: Instruct DSS to return any unused SSA funds in the ARF to the Federal Government.

Comments: We agree, if State rules permit, that they should return unused funds to ASAP until they are ready to be expended.

Recommendation 30: Periodically monitor the draw down of funds to ensure compliance with Federal laws.

Comments: We agree in principle with this recommendation. However, we understand this function is already performed centrally by SSA's Office of Finance. Our experience is that this would be difficult to implement at the regional office level because of ASAP access issues combined with the difficulty with using the Department of Treasury's ASAP system as a monitoring tool. Due to the manner in which credits and draws are displayed, it would be hard to track compliance. Ultimately, even with the work performed by SSA's Office of Finance, we rely on the periodic audits performed by OIG to ensure compliance.

Recommendation 31: Instruct DSS to discontinue the practice of drawing funds from 1 FY to pay for the expenditures of another FY.

Comments: We agree.

Recommendation 32: Ensure CADDs deobligates any unliquidated obligations that are not supported by valid documentation for FYs 1999 and 2000.

Comments: We agree.

Recommendation 33: Ensure CADDs improves the methods used to record unliquidated obligations so that future estimates more accurately reflect the amounts needed for valid expenditures.

Comments: We agree.

Recommendation 34: Ensure CADDs reviews unliquidated obligations on a monthly basis after the end of the FY.

Comments: We agree with the intent of this recommendation but believe that a quarterly review should be sufficient. Since, once the year is over, the State fiscal reporting is quarterly and SSA's Office of Finance generally adjusts funding only once a quarter, we are not sure if there is enough benefit from doing the

reviews monthly. We would be satisfied if the quarterly reporting of unliquidated obligations were improved.

Recommendation 35: Ensure CADDs monitors and reviews the transactions of security officers on a recurring basis.

Comments: We agree.

Recommendation 36: Ensure CADDs establishes procedures to require employees to lock or log off their workstations before leaving them unattended.

Comments: We agree.

Recommendation 37: Verify whether CADDs implemented an automatic lock to safeguard employee workstations in its branch offices.

Comments: We agree.



SOCIAL SECURITY

MEMORANDUM

Date: April 2, 2003

Refer To: S2D9G4

To: Assistant Inspector General
for Audit

From: Assistant Regional Commissioner
Management and Operations Support
San Francisco

Subject: Audit of Administrative Costs Claimed by the California Disability Determination Services (A-09-02-22022)

We have reviewed the State comments on the draft report of your audit of the California Disability Determination Services. We do not have any additional comments at this time.

We do want to make a correction to our original comments. After submission, it came to our attention that in the comments to recommendation one, we quoted a paragraph from an earlier version of the Medical Procedures Fee Schedule Workgroup Report of 1999 cited in your report. We regret this mistake. After reviewing the final version of the above report, our basic position on the finding remains the same. However, we are attaching revised comments for recommendation one.

If you have any questions, please call me. If staff have any questions, they may call Diane Trewin in the Center for Disability at (510) 970-8295.

/s/ Diane Blackman for
Patrick E. Sheehan

Attachment

Revised Comments on Recommendation 1

Recommendation 1: Evaluate the reasonableness of \$3,119,977 in fees for the six specialty examinations performed by board certified or eligible physicians during FYs 1999 through 2001.

Comment:

During a recent discussion with OIG regional staff, they stated that the Medicare fees they used to compute the \$3,119,977 were based on the locality of each exam. And yet, the Medical Procedures Fee Schedule Workgroup Report of 1999, quoted in the body of the draft audit report, states “In States with different localities, it is not necessary to create a different DDS fee schedule for each locality.” The report also states that “the highest fee should not be readily adopted” and “SSA must emphasize that States are expected to be cost efficient.” Our interpretation of the Workgroup report is that a single fee schedule is allowable, with the absolute maximum fee being the highest fee charged in the State. We agree that the State should not automatically adopt the highest fee, but the State will need to adopt a fee that will enable them to get the needed evidence throughout the State.

Since POMS does not address the upper fee limit in States with multiple localities and we have never provided California with specific guidance, it would not be appropriate to apply the stricter standard retroactively. We do not think that setting a different fee limit for each locality is the only reasonable standard. We believe the logistics of implementing different fee schedules for each locality might be so onerous that such a policy would be unsupportable.

OIG Contacts and Staff Acknowledgments

OIG Contacts

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Acknowledgments

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The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

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

Counsel to the Inspector General

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