

OIG

Office *of the* Inspector General
SOCIAL SECURITY ADMINISTRATION

Audit Report

Indirect Costs Claimed by the
California Disability Determination
Services

A-09-16-50047

OIG Office of the Inspector General
SOCIAL SECURITY ADMINISTRATION

MEMORANDUM

Date: February 10, 2016

Refer To:

To: Grace Kim
Regional Commissioner
San Francisco

From: Assistant Inspector General for Audit

Subject: Indirect Costs Claimed by the California Disability Determination Services (A-09-16-50047)

The attached final report presents the results of our audit. Our objective was to determine whether indirect costs the California Disability Determination Services claimed for Fiscal Years 2010 through 2014 were allowable.

If you wish to discuss the final report, please call me or have your staff contact James J. Klein, Audit Director, at (510) 970-1739.



Steven L. Schaeffer, JD, CPA, CGFM, CGMA

Attachment

cc:

Ann Robert, Acting Associate Commissioner for Disability Determinations
Carla Krabbe, Associate Commissioner for Financial Policy and Operations
Gary S. Hatcher, Senior Advisor for Records Management and Audit Liaison Staff
Will Lightbourne, Director, California Department of Social Services
Eva L. Lopez, Deputy Director, Disability Determination Services Division

Indirect Costs Claimed by the California Disability Determination Services

A-09-16-50047



February 2016

Office of Audit Report Summary

Objective

To determine whether indirect costs by the California Disability Determination Services (CA-DDS) claimed for Fiscal Years (FY) 2010 through 2014 were allowable.

Background

State disability determination services (DDS) perform disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, x-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources. SSA reimburses each DDS for 100 percent of allowable expenditures. Allowable expenditures include both direct and indirect costs.

For FYs 2010 through 2014, SSA reimbursed (CA-DDS) \$1.03 billion in administrative expenses, including \$108.5 million in indirect costs.

Findings

Our review disclosed that the California Department of Social Services (DSS) improperly charged indirect costs to SSA's programs. As a result, SSA reimbursed DSS for \$2,850,682 in unallowable costs for FYs 2010 through 2014. Specifically, we found DSS improperly charged SSA

- \$1,005,642 in indirect costs from the Information Systems Division,
- \$885,923 in indirect costs from the Human Rights and Community Services Division,
- \$219,128 in unallowable State-wide and departmental indirect costs, and
- \$739,989 in unallowable indirect costs related to conditions we identified in our 2010 audit.

Recommendations

We made several recommendations for DSS to refund the unallowable indirect costs charged to SSA's programs.

SSA agreed with our recommendations. In addition, DSS provided technical comments on our draft report, which we incorporated into the final report, as appropriate.

TABLE OF CONTENTS

| | |
|--|-----|
| Objective | 1 |
| Background | 1 |
| Results of Review | 2 |
| Improper Charges to Departmental Indirect Cost Pool..... | 2 |
| Information Systems Division | 2 |
| Human Rights and Community Services Division | 3 |
| Incorrect Cost Allocation Base | 4 |
| SSA and DSS Actions in Response to Our Prior Audit..... | 4 |
| Conclusions..... | 5 |
| Recommendations..... | 5 |
| Agency Comments..... | 5 |
| Appendix A – Scope and Methodology | A-1 |
| Appendix B – Agency Comments..... | B-1 |
| Appendix C – State Comments | C-1 |
| Appendix D – Acknowledgments..... | D-1 |

ABBREVIATIONS

| | |
|--------|--|
| CA-DDS | California Disability Determination Services |
| C.F.R. | Code of Federal Regulations |
| DDS | Disability Determination Services |
| DI | Disability Insurance |
| DSS | Department of Social Services |
| FY | Fiscal Year |
| OIG | Office of the Inspector General |
| OMB | Office of Management and Budget |
| PCA | Personal Computer Administrator |
| POMS | Program Operations Manual System |
| SSA | Social Security Administration |
| U.S.C. | United States Code |

OBJECTIVE

Our objective was to determine whether indirect costs the California Disability Determination Services (CA-DDS) claimed for Fiscal Years (FY) 2010 through 2014 were allowable.

BACKGROUND

State disability determination services (DDS) perform disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.¹ 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.²

SSA reimburses each DDS for 100 percent of allowable expenditures up to its approved funding authorization.³ Allowable expenditures include both direct and indirect costs. Direct costs can be identified with a particular cost objective. Indirect costs arise from activities that benefit multiple programs but are not readily assignable to these programs without effort disproportionate to the results achieved.⁴ At the end of each quarter, each DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and unliquidated obligations.⁵ CA-DDS is a component within the California Department of Social Services (DSS), Disability Determination Services Division, in Sacramento, California. For FYs 2010 through 2014, SSA reimbursed DSS \$1.03 billion in administrative expenses, including \$108.5 million in indirect costs.

In a 2010 audit,⁶ we found that DSS incorrectly charged indirect costs to SSA's programs. This occurred because DSS (1) charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool and (2) used an incorrect cost allocation base to distribute departmental and State-wide indirect costs. SSA and DSS agreed with our findings and

¹ The *Social Security Act*, as amended, §§ 221 and 1633, 42 U.S.C. §§ 421 and 1383b; *See also* 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

² SSA, POMS, DI 39545.120A. (April 20, 2007).

³ 20 C.F.R. §§ 404.1626 and 416.1026.

⁴ Direct costs can be identified specifically with a particular cost objective, Office of Management and Budget (OMB) Circular A-87 Revised, Attachment A, §E.1 (May 2004). Indirect costs arise from activities that benefit multiple programs but are not readily assignable to these programs without effort disproportionate to the results achieved (OMB Circular A-87 Revised, Attachment A, §F.1 (May 2004)).

⁵ SSA, POMS, DI 39506.210 (March 12, 2002).

⁶ SSA, OIG, *Indirect Costs Claimed by the California Disability Determination Services* (A-09-10-11079), November 2010.

recommendations, and DSS reimbursed SSA \$8,128,431 in unallowable costs for FYs 2002 through 2009.

RESULTS OF REVIEW

DSS improperly charged indirect costs to SSA's programs. As a result, SSA reimbursed DSS \$2,850,682 in unallowable costs for FYs 2010 through 2014. This consisted of

- \$1,005,642 in indirect costs from the Information Systems Division,
- \$885,923 in indirect costs from the Human Rights and Community Services Division,
- \$219,128 in unallowable State-wide and departmental indirect costs, and
- \$739,989 in unallowable indirect costs related to conditions we identified in our 2010 audit.

This occurred because DSS charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool and used an incorrect cost allocation base to distribute departmental and State-wide indirect costs.

Improper Charges to Departmental Indirect Cost Pool

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.⁷ These standards also state that indirect cost pools should be distributed to benefiting programs on bases that will produce an equitable result in consideration of relative benefits derived.⁸

We found that DSS improperly charged indirect costs to SSA programs from the Information Systems and Human Rights and Community Services Divisions.

Information Systems Division

The Information Systems Division develops, implements, and maintains information systems that support DSS programs. We found that DSS charged \$1,005,642 in unallowable indirect costs from the Information Systems Division to SSA's programs for FYs 2010 through 2014. These improper charges were for the Personal Computer Administrator (PCA) Support Bureau, Operations and Management Branch, and Deputy Director's office.

PCA Support Bureau plans, manages, and operates the wide and local area networking infrastructure for DSS. The staff also provides technical support and operational recovery at DSS offices. We found that the Bureau's wide and local area networking activities provided no

⁷ OMB Circular A-87 Revised, Attachment A, § C.3.a. (May 2004).

⁸ OMB Circular A-87 Revised, Attachment A § F.1. (May 2004).

benefit to SSA. In addition, DSS directly charged SSA for the costs of the Onsite and System Support Bureau, which plans, manages, and operates the wide and local area networking infrastructure for CA-DDS. However, the PCA Support Bureau did support administration units that benefited SSA.

Our review of staffing levels and the employee time reporting found that seven employees improperly charged 100 percent of their time to the general administrative cost pool. However, we determined they should have only charged 32.3 percent of their time to this cost pool. As a result, DSS allocated \$948,655 in unallowable indirect costs to SSA's programs for FYs 2011 through 2014.

Operations and Management Branch manages and operates the information technology networking infrastructure. DSS allocated the costs of the Branch's activities to the benefiting programs based on its components' time reporting. Since the PCA Support Bureau improperly charged its costs to the departmental indirect cost pool, DSS incorrectly allocated the cost pool expenditures from the Branch. As a result, DSS improperly charged \$27,087 in indirect costs from the Operations and Management Branch to SSA's programs for FYs 2011 through 2014.

Deputy Director oversees and manages all major, State-wide automation projects and information technology infrastructure. DSS allocated the costs of the Deputy Director's activities to the benefiting programs based on its components' time reporting. Since DSS improperly charged costs from the PCA Support Bureau and Operations and Management Branch to the departmental indirect cost pool, the Deputy Director's expenditures were also incorrectly allocated to the cost pool. As a result, DSS improperly charged \$29,900 in indirect costs from the Deputy Director's office to SSA's programs for FYs 2012 through 2014.

Human Rights and Community Services Division

The Human Rights and Community Services Division develops, enforces, and monitors departmental policy derived from State and Federal civil rights laws mandating equal access to departmental employment and public assistance benefits. We found that DSS charged \$885,923 in unallowable indirect costs to SSA's programs for FYs 2010 through 2014. These improper charges were from the Language Services Bureau and the Deputy Director's office.

Language Services Bureau is responsible for ensuring the equitable and efficient delivery of services and benefits to non-English-proficient clientele. Primary responsibilities include translating forms, notices, pamphlets, and other printed materials into Spanish, Russian, and Chinese. This Bureau directly charged CA-DDS for translating foreign-language medical evidence of record documents and verbal translating services. Our interviews with the Bureau staff and a description of the responsibilities in the cost allocation plan found that the Bureau provided no support to CA-DDS for activities unrelated to translating medical evidence of record documents and verbal translating services. As a result, DSS improperly charged \$694,707 in indirect costs to SSA's programs for FYs 2010 through 2014.

Deputy Director develops, enforces and monitors departmental policy derived from State and Federal civil rights laws mandating equal access to departmental employment and public assistance benefits. The Deputy Director also coordinates and facilitates all internal and external

audit requests to DSS. The costs of the Deputy Director's activities were allocated to the benefiting programs based on its components' time reporting. Since DSS improperly charged the costs of the Language Services Bureau to the departmental indirect cost pool, expenditures for the Deputy Director's office were also improperly charged to the cost pool. As a result, DSS improperly charged \$191,216 in indirect costs to SSA's programs for FYs 2010 through 2014.

Incorrect Cost Allocation Base

DSS used an incorrect cost allocation base to distribute departmental and State-wide indirect costs for FYs 2010 through 2014. This occurred because some DSS components improperly charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool. As a result, DSS charged \$219,128 in unallowable indirect costs to SSA's programs. This consisted of \$103,904 in departmental indirect costs and \$115,224 in State-wide indirect costs.

Departmental indirect costs are expenditures for services that benefit all DSS departments. State-wide indirect costs are expenditures for services that benefit all departments in the State, including accounting, auditing, budgeting, and payroll. Each month, DSS allocates departmental and State-wide indirect costs to the benefiting programs based on the ratio of salaries charged to each program divided by the salaries charged to all programs (referred to as the cost allocation base). DSS charges salary costs to programs based on time reporting by employees in each organizational component.

As we note in this report, DSS improperly charged the costs of activities of components in Information Systems and Human Rights and Community Services Divisions to the departmental indirect cost pool. Had these components properly charged their costs to the benefiting programs, their salaries would have increased the cost allocation base. As a result, DSS overstated the departmental and State-wide indirect cost rate charged to SSA by 0.13 percent, which caused SSA to reimburse DSS \$219,128 in unallowable departmental and State-wide indirect costs.

SSA and DSS Actions in Response to Our Prior Audit

Our 2010 audit⁹ found that DSS improperly charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool and used an incorrect cost allocation base to distribute departmental and State-wide indirect costs. As a result, SSA reimbursed DSS \$8,128,431 in unallowable costs for FYs 2002 through 2009. To address this, we recommended that SSA direct DSS to refund \$8,128,431 in unallowable costs and identify and refund any unallowable indirect costs for FY 2010 to the present.

⁹ SSA, OIG, *Indirect Costs Claimed by the California Disability Determination Services* (A-09-10-11079), November 2010.

In response to our audit, DSS reimbursed SSA the \$8,128,431 in unallowable indirect costs. However, it continued allocating the unallowable indirect costs our 2010 audit identified until July 2012. In addition, DSS did not identify and refund an additional \$739,989 in unallowable costs to SSA for the period of October 2009 through June 2012.

CONCLUSIONS

Our review disclosed that DSS incorrectly charged indirect costs to SSA's programs. This occurred because DSS (1) charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool and (2) used an incorrect cost allocation base to distribute departmental and State-wide indirect costs. As a result, SSA reimbursed DSS for \$2,850,682 in unallowable costs for FYs 2010 through 2014.

RECOMMENDATIONS

We recommend that SSA direct DSS to:

1. Refund \$1,005,642 of unallowable Information Systems Division indirect costs for FYs 2010 through 2014.
2. Refund \$885,923 of unallowable Human Rights and Community Services Division indirect costs for FYs 2010 through 2014.
3. Refund \$219,128 of unallowable State-wide and departmental indirect costs for FYs 2010 through 2014.
4. Refund \$739,989 of unallowable indirect costs related to conditions we identified in our 2010 audit.
5. Identify and refund any unallowable indirect costs for FY 2015 to present.

AGENCY COMMENTS

SSA agreed with our recommendations. In addition, DSS provided technical comments on our draft report, which we incorporated into the final report as appropriate.

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We reviewed the indirect costs reported by the California Disability Determination Services (CA-DDS) on its State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) for Federal Fiscal Years (FY) 2010 through 2014.

To accomplish our objective, we:

- Reviewed Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*; Code of Federal Regulations; and the Social Security Administration's (SSA) Program Operations Manual System.
- Reviewed the California Department of Social Services (DSS) Cost Allocation Plans, policies, and procedures related to indirect costs.
- Interviewed employees from DSS, CA-DDS, and SSA's San Francisco Regional Office.
- Verified the reconciliation of State accounting records to the indirect costs DSS reported on its Form SSA-4513 for FYs 2010 through 2014.
- Determined whether the indirect costs DSS claimed on its Form SSA-4513 FYs 2010 through 2014 were allowable.

We determined the computer-processed data were sufficiently reliable for our intended use. We conducted tests to determine the completeness and accuracy of the data. These tests allowed us to assess the reliability of the data and achieve our audit objective.

We conducted audit work in Richmond and Sacramento, California, between May and November 2015. The entities audited were SSA's San Francisco Regional Office and CA-DDS.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B – AGENCY COMMENTS



SOCIAL SECURITY

MEMORANDUM

Date: January 29, 2016 Refer To: S2D9G

To: Office of Inspector General (OIG)

From: Office of the Regional Commissioner, San Francisco

Subj: Request for Draft Report Comments – “Indirect Costs Claimed by the California Disability Determination Services (A-09-16-50047)”

Thank you for the opportunity to review OIG’s draft audit report on Indirect Costs Claimed by the California Disability Determination Services. We have reviewed the draft report and agree with OIG’s recommendations that the California Department of Social Services refund the Social Security Administration (SSA) for unallowable indirect costs charged to SSA since FY 2010. We are deferring a final position on the actual money amounts that should be repaid by California until we receive both the final OIG report and the State’s response.

If your staff has any questions, they may contact Jennifer Langfus, Program Director, at (510) 970-8313 or Alice Lee, Program Specialist, at (510) 970-8444.

Thank you.

Steve Breen
Deputy Regional Commissioner
Social Security Administration
Region IX - San Francisco

Appendix C – STATE COMMENTS



STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY
DEPARTMENT OF SOCIAL SERVICES
744 P Street • Sacramento, CA 95814 • www.cdss.ca.gov



January 20, 2016

Mr. Steven L. Schaeffer
Assistant Inspector General
Social Security Office of Audits
6401 Security Boulevard, 3 ME #2
Baltimore, MD 21235

Dear Mr. Schaeffer:

This is in response to your December 24, 2015 letter in which you provided the California Department of Social Services with the Office of Inspector General's (OIG) draft report entitled "Indirect Costs Claimed by the California Disability Determination Services (A-09-16-50047)."

We have reviewed the draft report and are providing you with our comments and concerns as it relates to the OIG's findings. We would like to clarify some of the information regarding the Information Systems Division, specifically in the Personal Computer Administrator (PCA) Support Bureau section.

In the PCA Support Bureau section the report states:

"However, the PCA Support Bureau did support administration units that benefited SSA. Based on staffing levels and employee time reporting, we determined the Bureau should have allocated 32.3 percent of its costs to the general administrative cost pool for its administration and legal divisions."

We want to note two things about the above statement:

1. The 32.3 percent that is cited is not for the entire Bureau's time study, but rather only the portion that was originally billed to our Department's indirect cost pool code 96000. If the report continues to reflect this percentage for the Bureau, then the language should be modified to reflect 9.39 percent for the Bureau, or there language should be added stating that the 32.3 percent is for the subset of employees that were charging to code 96000, one hundred percent of the time for the audit period.
2. Please note this percentage is, and will be, a fluctuating percentage moving forward, based on the support that the PCA Support Bureau is providing to

Mr. Steven L. Schaeffer
Page Two

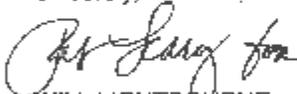
areas that are appropriately charging our Department's indirect cost pool code 96000.

The new time study approach that resulted in the new allocation level for the employees in the PCA Support Bureau, who previously charged 100 percent of their time to the Department's indirect cost pool code 96000, also resulted in a small percentage of their time that should have been direct charged to the Social Security Administration. The small percentage would have resulted in \$76,914 in direct charges over the time period. This amount would bring down the total disallowable costs from \$948,655 to \$871,741 for the PCA Support Bureau finding. This reduction would have also affected the amounts reported in the Operations and Management Branch, Deputy Director, and Incorrect Cost Allocation Base sections of the report.

I appreciate the opportunity to provide comments on and express concerns with your draft report of findings and hope that we can mutually agree to their resolution.

If you have any questions, please contact me at (916) 657-2598, or Cynthia Fair, Chief, Audits Bureau, at (916) 651-9923.

Sincerely,


WILL LIGHTBOURNE
Director

Appendix D – ACKNOWLEDGMENTS

James J. Klein, Director, San Francisco Audit Division

Joseph Robleto, Audit Manager

Timothy Meinholz, Senior Auditor

Brennan Kraje, Statistician

Kimberly Beauchamp, Writer-Editor

MISSION

By conducting independent and objective audits, evaluations, and investigations, the Office of the Inspector General (OIG) inspires public confidence in the integrity and security of the Social Security Administration's (SSA) programs and operations and protects them against fraud, waste, and abuse. We provide timely, useful, and reliable information and advice to Administration officials, Congress, and the public.

CONNECT WITH US

The OIG Website (<http://oig.ssa.gov/>) gives you access to a wealth of information about OIG. On our Website, you can report fraud as well as find the following.

- OIG news
- audit reports
- investigative summaries
- Semiannual Reports to Congress
- fraud advisories
- press releases
- congressional testimony
- an interactive blog, "[Beyond The Numbers](#)" where we welcome your comments

In addition, we provide these avenues of communication through our social media channels.



[Watch us on YouTube](#)



[Like us on Facebook](#)



[Follow us on Twitter](#)



[Subscribe to our RSS feeds or email updates](#)

OBTAIN COPIES OF AUDIT REPORTS

To obtain copies of our reports, visit our Website at <http://oig.ssa.gov/audits-and-investigations/audit-reports/all>. For notification of newly released reports, sign up for e-updates at <http://oig.ssa.gov/e-updates>.

REPORT FRAUD, WASTE, AND ABUSE

To report fraud, waste, and abuse, contact the Office of the Inspector General via

Website: <http://oig.ssa.gov/report-fraud-waste-or-abuse>

Mail: Social Security Fraud Hotline
P.O. Box 17785
Baltimore, Maryland 21235

FAX: 410-597-0118

Telephone: 1-800-269-0271 from 10:00 a.m. to 4:00 p.m. Eastern Standard Time

TTY: 1-866-501-2101 for the deaf or hard of hearing