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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SINGLE AUDIT OF  
THE STATE OF CALIFORNIA  
FOR THE FISCAL YEAR  
ENDED JUNE 30, 2009**

**November 2010**

**A-77-11-00002**

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**MANAGEMENT  
ADVISORY REPORT**

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## Mission

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

## Authority

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

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

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

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

## Vision

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



## SOCIAL SECURITY

### MEMORANDUM

Date: November 9, 2010

Refer To:

To: Rebecca Tothero  
Acting Director  
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of California for the Fiscal Year Ended June 30, 2009 (A-77-11-00002)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of California for the Fiscal Year ended June 30, 2009. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The California State Auditor performed the audit. The desk review conducted by the Department of Health and Human Services (HHS) concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the California State Auditor and the reviews performed by HHS. We conducted our review in accordance with the Council of the Inspectors General on Integrity and Efficiency's *Quality Standards for Inspections*.

For single audit purposes, the Office of Management and Budget (OMB) assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The California Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The Department of Social Services (DSS) is the DDS' parent agency.

The single audit reported that payroll costs distributed to the California DDS were not supported by personnel activity reports as required by OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (Attachment A, Pages 1 through 3). The corrective action plan indicates that DSS will become

compliant with OMB Circular A-87 (Attachment A, Page 3). We recommend that SSA ensure payroll costs distributed to the California DDS are supported by personnel activity reports when required by OMB Circular A-87.

The single audit also disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

- The State's accounting system did not allow the *Expenditures of Federal Awards* to be prepared in compliance with OMB Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*" requirements (Attachment B, Pages 1 and 2).
- DSS did not include suspension and debarment certification language in all contracts. In addition, the Excluded Parties Lists System Website was not checked to determine whether contractors were excluded from participation in Federal programs (Attachment B, Pages 3 through 5).

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (816) 221-0315, extension 1537.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr.", with a stylized flourish at the end.

Patrick P. O'Carroll, Jr.

Attachments

Reference Number:	2009-2-1
Category of Finding:	Allowable Costs/Cost Principles
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	93.658
Federal Program Title:	Foster Care—Title IV—E (Foster Care)
Federal Award Numbers and Years:	0901CA1402; 2009 0901CA1401; 2009 0801CA1401; 2008

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Federal Catalog Number:	96.001
Federal Program Title:	Social Security—Disability Insurance (Disability Insurance)
Federal Award Numbers and Years:	04-0904CADI00; 2009 04-0804CADI00; 2008

### Criteria

TITLE 2—GRANTS AND AGREEMENTS, PART 225—COST PRINCIPLES FOR STATE, LOCAL, AND INDIAN TRIBAL GOVERNMENTS (OMB CIRCULAR A-87)

#### Appendix B to Part 225—Selected Items of Cost

#### 8. Compensation for personal services

- h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.
  - (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
  - (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:
    - (a) More than one Federal award,
    - (b) A Federal award and a non-Federal award,
    - (c) An indirect cost activity and a direct cost activity,
    - (d) Two or more indirect activities which are allocated using different allocations bases, or

- (5) Personnel activity reports or equivalent documentation must meet the following standards:
  - (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
  - (b) They must account for the total activity for which each employee is compensated,
  - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
  - (d) They must be signed by the employee.
  - (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards but may be used for interim accounting purposes, provided that:
    - (i) The governmental unit's system for establishing the estimates produces reasonable approximations of the activity actually performed;
    - (ii) At least quarterly, comparisons of actual costs to budgeted distributions based on the monthly activity reports are made. Costs charged to Federal awards to reflect adjustments made as a result of the activity actually performed may be recorded annually if the quarterly comparisons show the differences between budgeted and actual costs are less than ten percent; and
    - (iii) The budget estimates or other distribution percentages are revised at least quarterly, if necessary, to reflect changed circumstances.

### Condition

Social Services does not always ensure that staff, whose payroll costs are charged to the Disability Insurance and Foster Care programs, follow federal regulations. More specifically, the distribution of payroll costs between the federal Disability Insurance and the state disability programs for eight of 24 staff we reviewed who work in two branches at Social Services was not supported by personnel activity reports, as required. Four of these employees work in the Onsite and System Support Bureau (support bureau), which provides information technology support to the various branches of the Disability Determination Services Division (disability division). According to the chief of the support bureau, payroll costs are allocated between federal and state disability programs using percentages that have remained the same since at least 2007 and are based on discussions the chief had with staff in that year. The remaining four staff members are clerical employees in the disability division's Oakland branch office for whom there were no activity reports to support the allocation of their payroll costs.

In addition, we found that although the Foster Care Rates Bureau charged 100 percent of its staff time during April through June of fiscal year 2008–09 to one program activity code, five of its 16 staff reported time spent during this period on other program activity codes, which would have changed the distribution of these employees' payroll costs. In fact, for the one quarter we reviewed, Social Services undercharged the federal Foster Care program by almost \$4,000 and overcharged the State's General Fund by the same amount. If this condition persisted throughout the year, the amount inappropriately charged would have been approximately \$15,000.

Unless Social Services corrects these deficiencies, it risks losing federal funds for noncompliance with federal requirements.

### Questioned Costs

Not determined.

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**Recommendation**

Social Services should require that all staff whose costs are charged to multiple activities, including the federal Disability Insurance and the Foster Care program activities, prepare and correctly use the personnel activity reports or equivalent documentation.

**Department's View and Corrective Action Plan**

Social Services stated that it concurs with the finding. Social Services indicated that its disability division strives to follow all applicable guidelines, and having been made aware of this deficiency, Social Services will work with disability division fiscal staff to fully remedy this issue and be in compliance with all aspects of Circular A-87. This finding should be resolved by April 2010.

Additionally, Social Services indicated that effective October 2009, the Foster Care Rates Bureau has corrected this finding by instructing the time and attendance staff to appropriately identify and prepare personnel activity documentation to identify reported activity codes listed on the quarterly time studies. Social Services stated that this will ensure that program activities identified are in fact charged to the correct Foster Care program.

Reference Number: 2009-12-9  
Federal Program Title: All Programs  
Category of Finding: Reporting  
State Administering Department: Department of Finance (Finance)

### Criteria

U.S. OFFICE OF MANAGEMENT AND BUDGET CIRCULAR A-133, *AUDITS OF STATES, LOCAL GOVERNMENTS, AND NON-PROFIT ORGANIZATIONS* (OMB CIRCULAR A-133), Subpart C—Auditees, Section .310—Financial Statements

- (b) Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. At a minimum, the schedule shall:
  - (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.

OMB CIRCULAR A-133, Subpart E—Auditors, Section .520—Major Program Determination

- (a) General. The auditor shall use a risk-based approach to determine which Federal programs are major programs. The risk-based approach shall include consideration of: Current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the Federal program. The process in paragraphs (b) through (i) of this section shall be followed.
- (b) Step 1.
  - (1) The auditor shall identify the larger Federal programs, which shall be labeled Type A programs. Type A programs are defined as Federal programs with Federal awards expended during the audit period exceeding the larger of:
    - (i) \$300,000 or three percent (.03) of total Federal awards expended in the case of an auditee for which total Federal awards expended equal or exceed \$300,000 but are less than or equal to \$100 million.
    - (ii) \$3 million or three-tenths of one percent (.003) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$100 million but are less than or equal to \$10 billion.
    - (iii) \$30 million or 15 hundredths of one-percent (.0015) of total Federal awards expended in the case of an auditee for which total Federal awards expended exceed \$10 billion.

### Condition

State law requires Finance to maintain a complete accounting system to ensure that all revenues, expenditures, receipts, disbursements, resources, obligations, and property of the State are accounted for properly and accurately. Because of limitations in its automated accounting systems, the State has not complied with the provision of OMB Circular A-133 requiring auditees to prepare a schedule of expenditures of federal awards that includes the total federal awards expended for each federal program. As a result, the schedule (beginning on page 309) shows total cash receipts rather than expenditures by program. Further, without the expenditure information, we are unable to comply with the provision of OMB Circular A-133 for determining which federal programs are major programs. Instead, we use the cash receipts information to make our determination for Type A programs. We also review expenditure information for those federal programs that have cash receipts within 10 percent of



### **Questioned Costs**

Not applicable.

### **Recommendation**

As priorities and resources permit, Finance should modify the State's accounting system to allow it to prepare a schedule of expenditures of federal awards that includes the total federal awards expended for each individual federal program.

### **Department's View and Corrective Action Plan**

The State's accounting system will require substantial modification to comply with federal and state requirements. The State has received legislative approval for a new integrated statewide financial management system—the Financial Information System for California (FI\$Cal Project)—with an anticipated completion date of 2017. Finance is aware of the importance of the reporting requirement, and it is working cooperatively with state agencies on developing an interim solution by 2010–11.

The FI\$Cal Project's requirements related to federal funding include the capability to record grants by Catalog of Federal Domestic Assistance (CFDA) number and to track and record transactions for individual grants at all levels of the account classification structure by time period and by CFDA number. Finance is confident that the new system, upon full implementation to all state departments will have the capability to provide total expenditures for each federal program as required by OMB Circular A-133.

Reference Number:	2009-9-2
Category of Finding:	Procurement, Suspension and Debarment
State Administering Department:	Department of Social Services (Social Services)
Federal Catalog Number:	93.556
Federal Program Title:	Promoting Safe and Stable Families (PSSF)
Federal Award Numbers and Years:	G-0901CAFPSS; 2009 G-0801CAFPSS; 2008

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Federal Catalog Number:	93.566
Federal Program Title:	Refugee and Entrant Assistance—State Administered Programs (Refugee Program)

### Criteria

TITLE 45—PUBLIC WELFARE, PART 92—UNIFORM ADMINISTRATIVE REQUIREMENTS FOR GRANTS AND COOPERATIVE AGREEMENTS TO STATE, LOCAL AND TRIBAL GOVERNMENTS, Subpart C—PostAward Requirements, Changes, Property, and Subawards, Section 92.35—Subawards to Debarred and Suspended Parties

Grantees and subgrantees must not make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension.”

TITLE 2—GRANTS AND AGREEMENTS, PART 180—OMB GUIDELINES TO AGENCIES ON GOVERNMENTWIDE DEBARMENT AND SUSPENSION (NONPROCUREMENT)

Subpart B—Covered Transactions, Section 180.200

A covered transaction is a nonprocurement or procurement transaction that is subject to the prohibitions of this part. It may be a transaction at—

- (a) The primary tier, between a Federal agency and a person; or
- (b) A lower tier, between a participant in a covered transaction and another person.

Subpart C—Responsibilities of Participants Regarding Transactions Doing Business With Other Persons, Section 180.330

Before entering into a covered transaction with a participant at the next lower tier, you must require that participant to—

- (a) Comply with this subpart as a condition of participation in the transaction. You may do so using any method(s), unless the regulation of the Federal agency responsible for the transaction requires you to use specific methods.
- (b) Pass the requirement to comply with this subpart to each person with whom the participant enters into a covered transaction at the next lower tier.

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES—ADMINISTRATION FOR  
CHILDREN AND FAMILIES TERMS AND CONDITIONS—SUBRECIPIENTS AND VENDORS  
UNDER GRANTS

“No organization may participate in this program in any capacity or be a recipient of Federal funds designated for this program if the organization has been debarred or suspended or otherwise found to be ineligible for participation in Federal assistance programs under Executive Order 12549, “Debarment and Suspension.” (See 45 CFR 92.35.) States must include a similar term and/or condition for all subawards or contracts awarded under this program. Prior to issuing subawards or contracts under this grant, the state must consult the ineligible parties list to ensure that organizations under funding consideration are not ineligible.”

**Condition**

In our last two audits, we reported that Social Services did not comply with either of the suspension and debarment requirements included in the Administration for Children and Families (ACF) grants’ terms and conditions when entering into contracts with noncounty subrecipients. During our follow-up procedures for fiscal year 2008–09, we found that Social Services still has not corrected this issue.

Our review of contracts with two noncounty subrecipients found that the contracts did not include the correct suspension and debarment terms and conditions. For example, the contract that Social Services used for a noncounty subrecipient to provide services for the Refugee Program stated that for federally funded agreements of \$25,000 or more, the contractor certified by signing the agreement that to the best of the contractor’s knowledge and belief, the contractor and its principals or affiliates were not debarred or suspended from federal financial assistance programs and activities nor proposed for debarment, declared ineligible, or voluntarily excluded from participation in covered transactions by any federal department or agency. However, this contract’s terms were incorrect because there is no dollar threshold for the suspension and debarment requirement for programs receiving federal funds from an ACF grant. Further, the terms did not include language specific to lower-tier subrecipients. In May 2009 Social Services revised its standard agreement to correct the suspension and debarment language. The amended agreement removed any mention of a dollar threshold and included language regarding lower-tier subrecipients.

Our review of two noncounty subrecipient contracts found that Social Services’ staff did not consult the federal Excluded Parties List System (EPLS) Web site before issuing subawards or contracts as required by the ACF terms and conditions. According to the chief of the contracts and financial analysis bureau, Social Services has introduced a checklist that requires its staff to check the EPLS Web site before finalizing a contract. However, the chief indicated that because the checklist was instituted during fiscal year 2008–09, staff would not have reviewed the EPLS for contracts that were finalized before fiscal year 2008–09.

Until Social Services corrects these issues, it will be unable to ensure that its noncounty subrecipients have not been suspended or debarred.

**Questioned Costs**

Not applicable.

### **Recommendations**

For contracts with noncounty subrecipients that are funded by ACF grants, Social Services should do the following:

- (1) Continue the use of its revised suspension and debarment language when entering into contracts with new noncounty subrecipients and amend existing contracts to include this language.
- (2) Continue the use of its contract checklist that prompts staff to consult the EPLS Web site before entering into these contracts.

### **Department's View and Corrective Action Plan**

Social Services concurs with our finding. Social Services stated that it will continue to use the revised suspension and debarment language in all contracts submitted for renewal or amendment, and it will conduct the EPLS search before entering into contracts. Results from the EPLS Web site are printed and included in the contract file as part of the documentation.



## **Overview of the Office of the Inspector General**

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

### **Office of Audit**

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

### **Office of Investigations**

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

### **Office of the Counsel to the Inspector General**

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

### **Office of External Relations**

OER manages OIG's external and public affairs programs, and serves as the principal advisor on news releases and in providing information to the various news reporting services. OER develops OIG's media and public information policies, directs OIG's external and public affairs programs, and serves as the primary contact for those seeking information about OIG. OER prepares OIG publications, speeches, and presentations to internal and external organizations, and responds to Congressional correspondence.

### **Office of Technology and Resource Management**

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.