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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**INTERIM AUDIT OF THE  
STATE OF CALIFORNIA  
FOR FISCAL YEAR 2010**

**FEBRUARY 2011**

**A-77-11-00009**

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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: February 23, 2011

Refer To:

To: Chris Molander  
Senior Advisor  
Office of Budget, Finance and Management

From: Inspector General

Subject: Management Advisory Report: Interim Audit of the State of California for  
Fiscal Year 2010 (A-77-11-00009)

This report presents the Social Security Administration's (SSA) portion of the interim audit of the State of California for the Fiscal Year (FY) 2010. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the interim audit to SSA for resolution action.

The California State Auditor issued the interim report to communicate preliminary findings discovered while conducting the single audit of the State of California for FY 2010. The interim report was issued pursuant to guidance issued by the Office of Management and Budget (OMB) in June 2010, encouraging auditors to communicate promptly any identified internal control deficiencies to management. By encouraging prompt communication, OMB intends for recipients, including States, to correct these findings as soon as possible to ensure proper accountability and transparency for expenditures.

Due to issuing the interim report prior to completing the single audit, the California State Auditor has not finalized internal control and compliance work. In addition, the Department of Health and Human Services (HHS) has not conducted its desk review. HHS will conduct a desk review of the single audit when it is finalized. We will notify you when the results are received if HHS determines that audit did not meet Federal requirements.

In reporting the results of the interim audit, we relied on the internal control and compliance work performed by the California State Auditor and the forthcoming reviews 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 audit purposes, 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 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. California's Department of Social Services (DSS) is the DDS' parent agency.

The interim audit reported that DSS could not substantiate \$197,000 of payroll expenditures it charged to the DI program for four employees. Specifically, DSS did not distribute the payroll expenditures of these employees to the DI program using the actual time spent working on activities related to the DI program. Instead, DSS used percentages to distribute the payroll expenditures based on a time study that occurred before January 2009, which DSS was unable to provide documentation (Attachment A, Page 1). The corrective action plan indicated that DSS verified that the payroll expenditures charged to the DI program were valid. The corrective action plan also indicated that, as of October 25, 2010, DSS staff began completing monthly employee time reports that reflect the actual activities the employees are performing (Attachment A, Page 1).<sup>1</sup>

We recommend that SSA verify that the \$197,000 in payroll expenditures allocated to the DI program were appropriate and, if not, recover any unallowable costs.

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.



Patrick P. O'Carroll, Jr.

Attachments

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<sup>1</sup> In a November 2010 report, SSA OIG, *Management Advisory Report: Single Audit of the State of California for the Fiscal Year Ended June 30, 2009* (A-77-11-00002), we recommended that SSA ensure payroll costs distributed to the California DDS were supported by personnel activity reports when required by OMB Circular A-87. Therefore, we will not repeat the recommendation in this report.

### **Social Services Could Not Substantiate Some of the Payroll Expenditures It Charged to the Disability Insurance Program**

Federal regulations require that when federally funded employees do not work exclusively on a single federal program, the distribution of their salaries or wages be supported by personnel activity reports or equivalent documentation, unless the federal government has approved a sampling system or other system to support these costs.

Social Services could not substantiate some of the payroll expenditures it charged to the Disability Insurance program. Specifically, Social Services uses funds from various sources, including the Disability Insurance program to pay for activities performed by the four employees whose payroll expenditures we selected to review and who work in Social Services' Financial Services Bureau. However, we found that Social Services did not distribute the payroll expenditures of these employees to the Disability Insurance program using the actual time they spent working on activities related to this program. Instead, Social Services used percentages to distribute the payroll expenditures that, according to the manager in the Financial Services Bureau, were based on a time study occurring before January 2009 and which Social Services was unable to provide. During fiscal year 2009–10, the payroll expenditures for all the employees in the Financial Services Bureau that were allocated to the Disability Insurance program totaled about \$197,000. Until Social Services corrects this deficiency, it risks losing federal funds for noncompliance with federal requirements.

We recommend that Social Services develop and implement procedures that meet the federal requirements regarding support for the distribution of salaries and wages for employees who work on more than a single federal award. In its corrective action plan, Social Services stated that it concurs with our finding. Social Services indicated that it analyzed the payroll expenditures charged by the Financial Services Bureau to the Disability Insurance program for fiscal year 2009–10 and determined that the expenditures were valid and do not represent questioned costs. Additionally, according to Social Services, as of October 25, 2010, the staff in the Financial Service Bureau began completing monthly employee time reports that reflect the actual activities the employees are performing.

## **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.