
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

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

November 2010

A-09-10-11079

AUDIT REPORT



Mission

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

Authority

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

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

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

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

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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 16, 2010

Refer To:

To: Peter D. Spencer
Regional Commissioner
San Francisco

From: Inspector General

Subject: Indirect Costs Claimed by the California Disability Determination Services
(A-09-10-11079)

OBJECTIVE

Our objective was to determine whether the indirect costs claimed by the California Disability Determination Services (CA-DDS) were allowable and properly allocated.

BACKGROUND

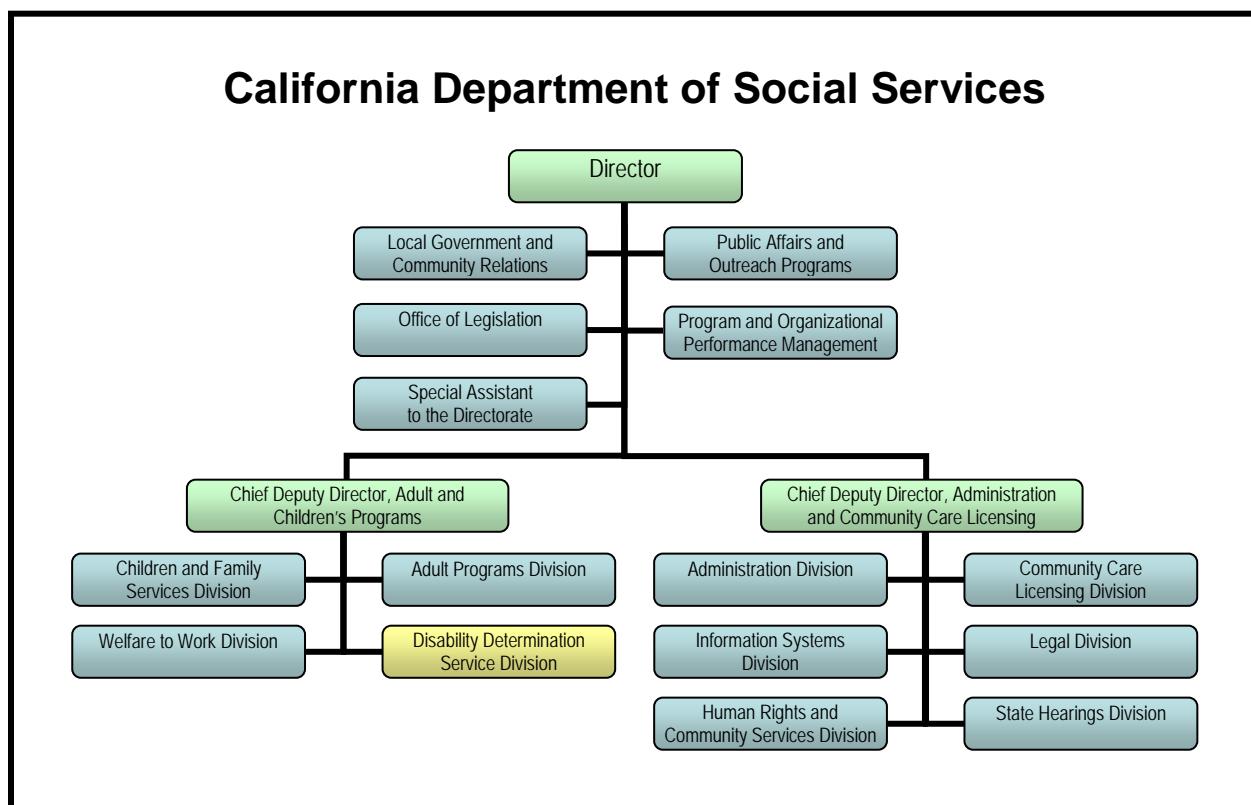
The Disability Insurance (DI) program was established in 1954 under Title II of the *Social Security Act* (Act). The DI program provides benefits to wage earners and their families in the event the wage earner becomes disabled. In 1972, Congress enacted the Supplemental Security Income (SSI) program 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, or other responsible jurisdiction, in accordance with Federal law and underlying regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations.

¹ 42 U.S.C. § 421; 20 C.F.R. part 404, subpart Q, and part 416, subpart J.

SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization.² Allowable expenditures include both direct and indirect costs.³ At the end of each quarter of the fiscal year (FY), each DDS submits a Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, to account for program disbursements and unliquidated obligations.

CA-DDS is a component within the California Department of Social Services (DSS), Disability Determination Services Division. As of September 30, 2009, DSS had reported total expenditures of \$572.9 million for FYs 2007 through 2009, including \$333 million in personnel costs, \$135.6 million in medical costs, \$45.3 million in non-personnel costs, and \$59 million in indirect costs. The following chart provides an overview of the organizational structure of DSS.



² 42 U.S.C. § 421; 20 C.F.R. §§ 404.1626 and 416.1026.

³ Direct costs can be identified specifically with a particular cost objective (Office of Management and Budget [OMB] Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, § E.1). Indirect costs arise from activities common to multiple programs but not readily assignable to these programs without effort disproportionate to the results achieved (OMB Circular A-87, Attachment A, § F.1).

DSS procedures require that components charge costs directly to the benefiting programs whenever possible.⁴ Indirect cost pools are used when activities benefit multiple program areas or the entire department. The departmental indirect cost pool is designed to accumulate the costs of activities that benefit all programs within DSS and allocate such costs reasonably and equitably. The statewide indirect cost pool is used to allocate an equitable share of statewide costs to the Federal programs that benefit from these services.

In general, indirect costs are allocated from the departmental indirect cost pool to all programs administered by DSS in relation to the total salaries charged to each program.⁵ 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 (referred to as the cost allocation base). Salary costs are charged to programs based on time reporting by employees within each organizational component.

In a prior audit,⁶ we found that DSS had charged SSA for indirect costs that did not benefit its programs. This occurred, in part, because of incorrect time reporting by DSS employees and inadequate methods for allocating indirect costs. SSA and DSS agreed with our findings and recommendations. Specifically, DSS refunded the unallowable costs to SSA and created a special administrative indirect cost pool to accumulate costs that benefit non-SSA programs. However, in July 2002, DSS eliminated the special administrative indirect cost pool.

RESULTS OF REVIEW

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 statewide indirect costs. As a result, SSA reimbursed DSS for \$8,128,431 in unallowable costs for FYs 2002 through 2009 (see Appendix B).⁷ Specifically, we found

- \$6,049,557 in indirect costs from the Information Systems Division did not benefit SSA's programs;

⁴ DSS, Administrative Manual, 9-200, January 2007.

⁵ DSS, Cost Allocation Plans for Direct and Indirect Costs, State FYs 2006 through 2009.

⁶ SSA, OIG, *Audit of Administrative Costs at the California Disability Determination Services* (A-09-97-51006), December 1998.

⁷ Although our review initially focused on FYs 2007 through 2009, we expanded the audit period to include the unallowable indirect costs since FY 2002 when the special administrative indirect cost pool was eliminated.

- \$1,293,632 in indirect costs from the Director's Office did not benefit SSA's programs; and
- \$785,242 in unallowable departmental and statewide indirect costs was allocated to SSA's programs.

IMPROPER CHARGES TO DEPARTMENTAL INDIRECT COST POOL

DSS charged the costs of activities that did not benefit SSA's programs to the departmental indirect cost pool. This occurred because DSS eliminated the special administrative indirect cost pool and did not ensure its employees properly reported their time charges. As a result, SSA reimbursed DSS for \$7,343,189 in unallowable costs for FYs 2002 through 2009. This consisted of (1) \$6,049,557 from the Information Systems Division and (2) \$1,293,632 from the Director's Office.

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.⁸ 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.⁹

We reported this condition in our 1998 audit report.¹⁰ In its response to our prior report, DSS agreed with our findings and refunded \$3.6 million in indirect costs to SSA. Specifically, DSS created a special administrative indirect cost pool to accumulate the costs of activities that benefit only non-SSA programs. The special administrative indirect cost pool was limited to activities within the Administration and Information Systems Division that benefited all programs except SSA's. However, in July 2002, DSS eliminated the special administrative indirect cost pool.

During our review, we found a number of components in the Information Systems Division and Director's Office had charged the costs of their activities to the departmental indirect cost pool after the special administrative indirect cost pool was eliminated. This occurred even though these components' activities did not benefit SSA's programs. Since the departmental indirect cost pool is allocated to both SSA and non-SSA programs, SSA was improperly charged a portion of these costs.

⁸ OMB Circular A-87, Attachment A, § C.3.a.

⁹ OMB Circular A-87, Attachment A § F.1.

¹⁰ See Footnote 6.

Information Systems Division

The Information Systems Division develops, implements, and maintains information systems that support DSS programs. DSS charged \$6,049,557 in unallowable indirect costs from the Information Systems Division to SSA's programs for FYs 2002 through 2009. These costs were charged by the (1) Customer Support Bureau; (2) Network Operations Bureau; (3) Operations and Management Branch; (4) Children and Family Services Division (CFSD), Executive Office, Administration, and State Hearings Division (SHD) Support Bureau; (5) Technical Services Branch; and (6) Deputy Director, Information Systems Division.

Customer Support Bureau – This Bureau provides personal computing support and help desk services. Beginning in May 2002, the Customer Support Bureau charged 100 percent of its costs to the departmental indirect cost pool, which is allocated to all programs, including SSA's programs. We determined the Bureau provided no benefit to SSA's programs. DSS staff agreed with our determination. As a result, SSA reimbursed DSS for \$2,965,833 in unallowable indirect costs for FYs 2002 through 2009. We also reported this condition in our 1998 audit that resulted in DSS' refunding the unallowable indirect costs to SSA.

Network Operations Bureau – This Bureau plans, manages, and operates the wide and local area networking infrastructure for DSS. We determined the Bureau performed activities that benefited all programs except SSA's. DSS staff agreed with our determination. However, DSS incorrectly charged the costs of the Network Operations Bureau to the departmental indirect cost pool. As a result, SSA reimbursed DSS for \$1,916,812 in unallowable indirect costs for FYs 2002 through 2009. We also reported this condition in our 1998 audit, which resulted in DSS refunding the unallowable indirect costs to SSA.

Operations and Management Branch – This Branch manages and operates the information technology (IT) networking infrastructure for DSS. It consists of the Customer Support, Network Operations, and Onsite and System Support Bureaus.¹¹ The expenditures from the Branch are allocated to the benefiting programs based on the time reporting of its Bureaus. Since the Customer Support and Network Operations Bureaus improperly charged their costs to the departmental indirect cost pool, the expenditures from the Branch were also incorrectly charged to the cost pool. As a result, DSS improperly allocated \$211,699 in indirect costs from the Operations and Management Branch to SSA's programs for FYs 2002 through 2009.

¹¹ The activities of the Onsite and System Support Bureau are charged directly to SSA. The Bureau performs the same functions for SSA that the Customer Support and Network Operations Bureaus perform for the rest of DSS.

CFSD, Executive Office, Administration, and SHD Support Bureau – This Bureau supports the mainframe applications for three program divisions (CFSD, Administration Division, and SHD) and the Executive Office. We determined the Bureau did not perform activities that benefited SSA's programs. DSS staff agreed with our determination. Nevertheless, through the departmental indirect cost pool, DSS improperly charged SSA for a portion of these costs. As a result, SSA reimbursed DSS for \$542,512 in unallowable indirect costs for FYs 2002 through 2009.

Technical Services Branch – This Branch develops and maintains automated systems, conducts activities to streamline program operations, and prepares planning and procurement documents for approval and funding of IT projects. It consists of four bureaus: Community Care Licensing/Legal Support; CFSD, Executive Office, Administration, and SHD Support; Welfare to Work Support; and Internet Solutions. The expenditures from the Branch are allocated to the benefiting programs based on the time reporting of its bureaus. Since the CFSD, Executive Office, Administration, and SHD Support Bureau improperly charged its costs to the departmental indirect cost pool, the expenditures from the Branch were also incorrectly charged to the cost pool. As a result, DSS improperly allocated \$23,891 in indirect costs from the Technical Services Branch to SSA's programs for FYs 2002 through 2009.

Deputy Director, Information Systems Division – The Deputy Director oversees and manages all major statewide automation projects and IT infrastructure. The costs of the activities performed by the Deputy Director are allocated to the benefiting programs based on the time reporting of its components. This included the Customer Support; Network Operations; and CFSD, Executive Office, Administration, and SHD Support Bureaus; as well as the Operations and Management and Technical Services Branches. Since these components improperly charged their costs to the departmental indirect cost pool, the expenditures for the Deputy Director were also incorrectly charged to the cost pool. As a result, DSS improperly allocated \$388,810 in indirect costs from the Deputy Director for the Information Systems Division to SSA's programs for FYs 2002 through 2009.

Director's Office

The Director's Office provides executive direction for DSS and sets administrative policy for the welfare, community care licensing, disability evaluation, and other social service programs. DSS charged \$1,293,632 in unallowable indirect costs from the Director's Office to SSA's programs for FYs 2002 through 2009. These costs were charged by the (1) Deputy Director, Public Affairs and Outreach Programs, and (2) Deputy Director, Local Government and Community Relations.

Deputy Director, Public Affairs and Outreach Programs – The Deputy Director advises and assists the Director in the overall planning, development, and direction of public information and educational activities related to DSS programs. This component was previously known as the Public Inquiry and Response Unit. Although the Deputy Director's activities primarily benefited non-SSA programs, DSS incorrectly charged the expenditures from Public Affairs and Outreach Programs to the departmental indirect cost pool. As a result, SSA reimbursed DSS for \$973,075 in unallowable indirect costs from the Deputy Director for Public Affairs and Outreach Programs for FYs 2002 through 2009. We also reported this condition in our 1998 audit, which resulted in DSS' refunding the unallowable indirect costs to SSA.

Deputy Director, Local Government and Community Relations – The Deputy Director acts as a liaison to county welfare directors, chief probation officers, community groups, and other local officials. DSS charged 100 percent of the expenditures from Local Government and Community Relations to the departmental indirect cost pool. However, the Deputy Director generally performed activities that benefited all programs administered by DSS except for SSA's. As a result, SSA reimbursed DSS for \$320,557 in unallowable indirect costs from the Deputy Director for Local Government and Community Relations for FYs 2002 through 2009.¹² We also reported this condition in our 1998 audit, which resulted in DSS' refunding the unallowable indirect costs to SSA.

INCORRECT COST ALLOCATION BASE

DSS used an incorrect cost allocation base to distribute departmental and statewide indirect costs for FYs 2002 through 2009. 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 allocated \$785,242 in unallowable indirect costs to SSA's programs. This consisted of \$426,861 in departmental indirect costs and \$358,381 in statewide indirect costs.

Departmental indirect costs are expenditures for services that benefit all departments in DSS. Statewide 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 statewide 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). Salary costs are charged to programs based on time reporting by employees in each organizational component.

¹² This represents costs charged by the Deputy Director for Local Government and Community Relations from March 2007 to September 2009 and the Assistant to the Director for Local Government from October 2001 to February 2007.

As previously noted in this report, DSS incorrectly charged the costs of activities performed by various components in the Information Systems Division and Director's Office to the departmental indirect cost pool.¹³ Had these components properly charged their costs to the benefiting programs, their salaries would have been included in the cost allocation base. However, since the cost allocation base was understated, we determined the departmental and statewide indirect costs allocated to SSA were overstated by 0.27 percent for FYs 2002 through 2009. As a result, SSA reimbursed DSS for \$785,242 in unallowable departmental and statewide indirect costs.

For example, in October 2008, the total salaries for DSS were \$18,687,693, of which CA-DDS' share was \$6,984,239 (37.37 percent). This allocation percentage was used to distribute departmental and statewide indirect costs. However, since several DSS components improperly charged the costs of their activities to the departmental indirect cost pool, their salaries (\$145,228) were excluded from the cost allocation base. The total salaries for DSS should have been \$18,832,921, thereby reducing CA-DDS' share to 37.09 percent. As a result, the allocation percentage was overstated by 0.28 percent that year. Based on departmental and statewide indirect costs of \$1,916,756 and \$1,735,527, respectively, DSS improperly allocated \$5,367 and \$4,859 to SSA's programs.

CONCLUSION AND RECOMMENDATIONS

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 statewide indirect costs. As a result, SSA reimbursed DSS for \$8,128,431 in unallowable costs for FYs 2002 through 2009 (see Appendix B).¹⁴

Therefore, we recommend that SSA direct DSS to:

1. Refund \$8,128,431 in indirect costs that did not benefit SSA's programs for FYs 2002 through 2009.
2. Identify and refund any unallowable indirect costs for FY 2010 to the present.
3. Improve controls to ensure costs are properly charged to the departmental indirect cost pool.

¹³ These components included the (1) Customer Support Bureau; (2) Network Operations Bureau; (3) CFSD, Executive Office, Administration, and SHD Support Bureau; (4) Deputy Director for Public Affairs and Outreach Programs; and (5) Deputy Director for Local Government and Community Relations.

¹⁴ Although our review initially focused on FYs 2007 through 2009, we expanded the audit period to include the unallowable indirect costs since FY 2002 when the special administrative indirect cost pool was eliminated.

4. Provide training to DSS staff in time reporting policies and procedures.
5. Review the departmental indirect cost pool for inappropriate charges on a periodic basis.

AGENCY COMMENTS

SSA and DSS generally agreed with our recommendations. In its response, DSS requested the repayment amount be limited to the five State FYs for which funding is still available. See Appendices D and E for the full text of SSA's and DSS' comments.



Patrick P. O'Carroll, Jr.

Appendices

[**APPENDIX A**](#) – Acronyms

[**APPENDIX B**](#) – Summary of Questioned Costs

[**APPENDIX C**](#) – Scope and Methodology

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

[**APPENDIX E**](#) – California Department of Social Services’ Comments

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

Appendix A

Acronyms

| | |
|----------|---|
| Act | <i>Social Security Act</i> |
| C.F.R. | Code of Federal Regulations |
| CA-DDS | California Disability Determination Services |
| CFSD | Children and Family Services Division |
| DDS | Disability Determination Services |
| DI | Disability Insurance |
| DSS | Department of Social Services |
| FY | Fiscal Year |
| IT | Information Technology |
| OIG | Office of the Inspector General |
| OMB | Office of Management and Budget |
| SHD | State Hearings Division |
| SSA | Social Security Administration |
| SSA-4513 | <i>State Agency Report of Obligations for SSA Disability Programs</i> |
| SSI | Supplemental Security Income |
| U.S.C. | United States Code |

Appendix B

Summary of Questioned Costs

California Disability Determination Services Federal Fiscal Years 2002 Through 2009

| <u>Description</u> | <u>Amount</u> |
|---|---------------------------|
| Improper Charges to Departmental Indirect Cost Pool | |
| <i>Information Systems Division</i> | |
| ▪ Customer Support Bureau | \$2,965,833 |
| ▪ Network Operations Bureau | 1,916,812 |
| ▪ Operations and Management Branch | 211,699 |
| ▪ Children and Family Services Division, Executive Office, Administration, and State Hearings Division Support Bureau | 542,512 |
| ▪ Technical Services Branch | 23,891 |
| ▪ Deputy Director, Information Systems Division | 388,810 |
| <i>Director's Office</i> | |
| ▪ Deputy Director, Public Affairs and Outreach | 973,075 |
| ▪ Deputy Director, Local Government and Community Relations | 320,557 |
| Incorrect Cost Allocation Base | |
| ▪ Departmental Indirect Costs | 426,861 |
| ▪ Statewide Indirect Costs | <u>358,381</u> |
| Total | <u>\$8,128,431</u> |

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) 2007 through 2009. However, our findings affected the costs claimed since the special administrative indirect cost pool was eliminated in FY 2002. Therefore, we expanded the audit period to develop these issues.

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 and policies and procedures related to indirect costs.
- Interviewed employees from DSS, CA-DDS, and the SSA Regional Office.
- Verified the reconciliation of State accounting records to the indirect costs reported by DSS on its Form SSA-4513 for FYs 2007 through 2009.
- Examined the allowability of indirect costs claimed by DSS on its Form SSA-4513 FYs 2007 through 2009.

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 performed audit work at CA-DDS and DSS in Sacramento, California. We also performed audit work at the SSA Regional Office in Richmond, California. Our fieldwork was conducted between December 2009 and May 2010.

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 D

Social Security Administration's Comments

August 25, 2010

TO: Office of Inspector General (OIG)
FROM: Deputy Commissioner for Operations (DCO)

SUBJECT: DCO REPLY: Request for Draft Report Comments - "Indirect Costs claimed by the California Disability Determination Services," audit # 22010020 (Kimberly Berger's email, 7/29/10)

Thank you for the opportunity to review OIG's draft audit report on Indirect Costs Claimed by the California DDS. We have reviewed the draft report and agree with OIG's findings. 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.

We appreciate the work performed by the OIG staff in the San Francisco Region.

If your staff have any questions, they may call Gus Villalobos at (510) 970-8297 or Jen Mitchell at (510) 970-8309, both in the San Francisco Center for Disability.

Roger McDonnell for Mary Glenn-Croft

Appendix E

California Department of Social Services' Comments



JOHN A. WAGNER
DIRECTOR

STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY
DEPARTMENT OF SOCIAL SERVICES

744 P Street • Sacramento, CA 95814 • www.cdss.ca.gov



ARNOLD SCHWARZENEGGER
GOVERNOR

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 July 22, 2010 letter in which you provided the California Department of Social Services (CDSS) with the Office of Inspector General's (OIG) draft report entitled "Indirect Costs Claimed by the California Disability Determination Services (A-09-10-11079)".

The CDSS has reviewed the draft report and is providing you with our comments and concerns as it relates to the OIG's findings. For the most part, we agree with the OIG's findings. However, we also believe that some of the CDSS employees in these bureaus could have properly claimed their services and time as indirect costs to the Social Security Administration's (SSA) programs from 2002-2009. The Department does not have sufficient documentation to retroactively amend employee timesheets to accurately capture these costs. Additionally, the extension of the audit period to eight fiscal years rather than the two years in the original audit notification letter is problematic. Retroactively applying adjustments resulting from the findings in this report would impact multiple state and federal programs for which funding is no longer available. We recommend that the audit period be limited to the years for which appropriations are still available. Repayment for these findings is contingent upon CDSS seeking additional budget authority. The enclosed response addresses the recommendations made in the report, as well as each specific finding. This was done to provide additional details on the activities performed by CDSS employees that benefit SSA.

I appreciate the opportunity to provide comments 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,

JOHN A. WAGNER
Director

Enclosure

Response to Recommendations

The California Department of Social Services (CDSS) appreciates the opportunity to respond to the Social Security Administration (SSA) Office of Inspector General (OIG) draft report entitled “Indirect Costs Claimed by the California Disability Determination Services (A-09-10-11079). CDSS’ responses to the five recommendations are shown below.

Recommendation #1

Refund \$8,128,431 in indirect costs that did not benefit SSA’s programs for fiscal years 2002 through 2009.

CDSS Response: CDSS partially agrees with this recommendation.

The CDSS partially agrees, however the SSA-OIG review spans eight state fiscal years. Any adjustments resulting from these findings would impact multiple state and federal programs for which funding is no longer available. The CDSS is recommending that the audit period be limited to the five state fiscal years for which funds are available.

Recommendation #2

Identify and refund any unallowable indirect costs for fiscal year (FY) 2010 to the present.

CDSS Response: CDSS agrees with this recommendation.

The CDSS agrees to ensure that prospectively the time certifications in these bureaus are revised to no longer use the Departmental overhead code.

Recommendation #3

Improve controls to ensure costs are properly charged to the department indirect cost pool.

CDSS Response: CDSS agrees with this recommendation.

The CDSS has implemented the following corrective action plans to address this recommendation:

- In August 2010, CDSS Fiscal Systems Bureau (FSB) worked with the Information Systems Division and Director’s Office to correctly charge staff time to the appropriate Program Cost Account (PCA) codes representing the benefiting programs beginning with the month of July 2010; and
- In August 2010, CDSS FSB began reviewing, on a monthly/quarterly basis, all organization time summaries that charge the Departmental indirect cost pool PCA for appropriateness.

Recommendation #4

Provide training to DSS staff in time reporting policies and procedures.

CDSS Response: CDSS agrees with this recommendation.

The CDSS will develop and provide training to educate staff on correct time reporting.

CDSS will take the following actions to implement the training by January 2011:

- Issue a Supervisors and Above Memo with information and contacts.
- Develop a Webinar training session.
- Document all procedures and make readily available for all staff to access.
- Update the power point presentation that is currently available on the CDSS intranet.

Recommendation #5

Review the departmental indirect cost pool for inappropriate charges on a periodic basis.

CDSS Response: CDSS agrees with this recommendation.

The CDSS will develop an automated query process to help detect inappropriate use of the CDSS indirect cost pool PCA by October 2010.

The CDSS responses to the associated nine findings are provided in the attached document.

Response to Associated Findings

Improper Charges to Departmental Indirect Cost Pool Information Systems Division

Finding #1: Customer Support Bureau

This Bureau provides personal computing support and help desk services. Beginning in May 2002, the Customer Support Bureau charged 100 percent of its costs to the departmental indirect cost pool, which is allocated to all programs, including SSA's programs. We determined the Bureau provided no benefit to SSA's programs. DSS staff agreed with our determination. As a result, SSA reimbursed DSS for \$2,965,833 in unallowable indirect costs for FYs 2002 through 2009. We also reported this condition in our 1998 audit that resulted in DSS' refunding the unallowable indirect costs to SSA.

CDSS Response: CDSS agrees with this finding.

While the Customer Support Bureau (CSB) does not directly support the staff working on the federal network they do provide Help Desk Services to all CDSS staff on the Microsoft Office Suite and other common applications. The staff working on the federal network also access the Internet through network connections at the Office of Technology Services. When the connection goes down or there are problems with accessing specific sites on the Internet, the CSB Help Desk works to resolve the issues. However, these activities are a small part of the CSB's principle workload and the Department does not have sufficient documentation to retroactively amend employee timesheets to accurately capture these costs.

Finding #2: Network Operations Bureau

This Bureau plans, manages, and operates the wide and local area networking infrastructure for DSS. We determined the Bureau performed activities that benefited all programs except SSA's. DSS staff agreed with our determination. However, DSS incorrectly charged the costs of the Network Operations Bureau to the departmental indirect cost pool. As a result, SSA reimbursed DSS for \$1,916,812 in unallowable indirect costs for FYs 2002 through 2009. We also reported this condition in our 1998 audit that resulted in DSS' refunding the unallowable indirect costs to SSA.

CDSS Response: CDSS agrees with this finding.

The Network Operations Bureau (NOB) supports the CDSS staff working on the federal network by troubleshooting firewall and Internet issues which can affect access to federal systems. The NOB also dedicates a Senior Information Systems Analyst and Staff Information Systems Analyst (primary and backup) to oversee all of the new federal production branches in terms of specifying and ensuring electrical and cabling in the data centers and workspace meet federal guidelines. These positions also design the new data centers, work with business services to obtain necessary state approvals, and assist in troubleshooting connectivity issues in the federal production branches. However, these activities are a small part of the CSB's principle workload and the

Department does not have sufficient documentation to retroactively amend employee timesheets to accurately capture these costs.

Finding #3: Operations and Management Branch

This Branch manages and operates the information technology (IT) networking infrastructure for DSS. It consists of the Customer Support, Network Operations, and Onsite and System Support Bureaus. The expenditures from the Branch are allocated to the benefiting programs based on the time reporting of its Bureaus. Since the Customer Support and Network Operations Bureaus improperly charged their costs to the departmental indirect cost pool, the expenditures from the Branch were also incorrectly charged to the cost pool. As a result, DSS improperly allocated \$211,699 in indirect costs from the Operations and Management Branch to SSA's programs for FYs 2002 through 2009.

CDSS Response: CDSS agrees with this finding.

Based on the responses described in Findings #1 and #2, the Department agrees with the SSA-OIG review findings.

Finding #4: CFSD, Executive Office, Administration, and SHD Support Bureau

This Bureau supports the mainframe applications for three program divisions (CFSD, Administration Division, and SHD) and the Executive Office. We determined the Bureau did not perform activities that benefited SSA's programs. DSS staff agreed with our determination. Nevertheless, through the departmental indirect cost pool, DSS improperly charged SSA for a portion of these costs. As a result, SSA reimbursed DSS for \$542,512 in unallowable indirect costs for FYs 2002 through 2009.

CDSS Response: CDSS agrees with this finding.

This Bureau provides mainframe application support for three divisions within the Department and support for multiple enterprise systems that are utilized by all divisions, including the Disability Determination Service Division (DDSD) within the Department. These systems provide information and/or track the various assets utilized by DDSD. The systems are:

- Property database
- Hardware database
- Telecomm database
- Budget Information System
- Furniture database
- Warehouse Forms/Management
- Purchasing database

However, the Department does not have sufficient documentation to retroactively amend employee timesheets to accurately capture these costs.

Finding #5: Technical Services Branch

This Branch develops and maintains automated systems, conducts activities to streamline program operations, and prepares planning and procurement documents for approval and funding of IT projects. It consists of four bureaus: Community Care Licensing/Legal Support; CFSD, Executive Office, Administration, and SHD Support; Welfare to Work Support; and Internet Solutions. The expenditures from the Branch are allocated to the benefiting programs based on the time reporting of its bureaus. Since the CFSD, Executive Office, Administration, and SHD Support Bureau improperly charged its costs to the departmental indirect cost pool, the expenditures from the Branch were also incorrectly charged to the cost pool.

CDSS Response: CDSS agrees with this finding.

Based on the response described in Finding #4, the Department agrees with the SSA-OIG review findings.

Finding #6: Deputy Director, Information Systems Division

The Deputy Director oversees and manages all major state-wide automation projects and IT infrastructure. The costs of the activities performed by the Deputy Director are allocated to the benefiting programs based on the time reporting of its components. This included the Customer Support; Network Operations; and CFSD, Executive Office, Administration, and SHD Support Bureaus as well as the Operations and Management; and Technical Services Branches. Since these components improperly charged their costs to the departmental indirect cost pool, the expenditures for the Deputy Director were also incorrectly charged to the cost pool. As a result, DSS improperly allocated \$388,810 in indirect costs from the Deputy Director for the Information Systems Division to SSA's programs for FYs 2002 through 2009.

CDSS Response: CDSS agrees with this finding.

Based on the responses described in Findings #1 through #5, the Department agrees with the SSA-OIG review findings.

Director's Office

Finding #7: Deputy Director, Public Affairs and Outreach Programs

The Deputy Director advises and assists the Director in the overall planning, development, and direction of public information and educational activities related to DSS programs. This component was previously known as the Public Inquiry and Response Unit. Although the Deputy Director's activities primarily benefited non-SSA programs, DSS incorrectly charged the expenditures from Public Affairs and Outreach Programs to the departmental indirect cost pool. As a result, SSA reimbursed DSS for \$973,075 in unallowable indirect costs from the Deputy Director for Public Affairs and Outreach Programs for FYs 2002 through 2009. We also reported this condition in our 1998 audit that resulted in DSS' refunding the unallowable indirect costs to SSA.

CDSS Response: CDSS agrees with this finding.

Finding #8: *Deputy Director, Local Government and Community Relations*

The Deputy Director acts as a liaison to county welfare directors, chief probation officers, community groups, and other local officials. DSS charged 100 percent of the expenditures from Local Government and Community Relations to the departmental indirect cost pool. However, the Deputy Director generally performed activities that benefited all programs administered by DSS except for SSA's. As a result, SSA reimbursed DSS for \$320,557 in unallowable indirect costs from the Deputy Director for Local Government and Community Relations for FYs 2002 through 2009. We also reported this condition in our 1998 audit that resulted in DSS' refunding the unallowable indirect costs to SSA.

CDSS Response: CDSS agrees with this finding.

Administration Division

Finding #9: *Indirect Cost Allocation Base*

DSS used an incorrect cost allocation base to distribute departmental and state-wide indirect costs for FYs 2002-2009. 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 allocated \$785,242 in allowable indirect costs to SSA's programs. This consisted of \$426,861 in departmental indirect costs and \$358,381 in state-wide indirect costs.

CDSS Response: CDSS agrees with this finding.

Appendix F

OIG Contacts and Staff Acknowledgments

OIG Contacts

James J. Klein, Director, San Francisco Audit Division

Jack H. Trudel, Audit Manager

Acknowledgments

In addition to those named above:

Tim Meinholtz, Senior Auditor

Jim Sippel, Senior Auditor

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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.

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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.

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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.

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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.