
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF CALIFORNIA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2010**

March 2012

A-77-12-00005

**MANAGEMENT
ADVISORY 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.

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: March 15, 2012

Refer To:

To: Teresa Rojas
Senior Advisor
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, 2010 (A-77-12-00005)

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, 2010. 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 results of 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 Inspection and Evaluation*.

For single audit purposes, the Office of Management and Budget 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 California DDS' parent agency.

The single 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 for which DSS was unable to provide documentation (Attachment A, Pages 1 and 2).

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 2).

We made a recommendation to SSA in a prior report for corrective action on this finding.¹ We confirmed that SSA had taken appropriate corrective action to address this finding. Therefore, we will not repeat the recommendation in this report.

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (877) 405-7694, extension 18802.



Patrick P. O'Carroll, Jr.

Attachments

cc:
Lynn Bernstein

¹ SSA OIG, *Management Advisory Report: Interim Audit of the State of California for Fiscal Year 2010*. (A-77-11-00009), February 2011.

Reference Number: 2010-2-1
Federal Catalog Number: 96.001
Federal Program Title: Social Security—Disability Insurance
(Disability Insurance)
Federal Award Numbers and Years: 04-1004CADI00; 2010
04-0904CADI00; 2009
Category of Finding: Allowable Costs/Cost Principles
State Administering Department: Department of Social Services (Social Services)

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 firsthand 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
 - (e) An unallowable activity and a direct or indirect cost activity.
 - (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

- (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 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.

Questioned Costs

No specific questioned costs identified.

Recommendation

Social Services should 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.

Department's View and Corrective Action Plan

Social Services indicated that it concurs with the finding that the payroll expenditures for the four employees selected for review were distributed to the Disability Insurance program using percentages instead of actual time spent on the activities related to this program. The percentages used to distribute the payroll expenditures were based on a time study performed prior to January 2009.

Although Social Services could not substantiate some of the payroll expenditures charged to the Disability Insurance program, Social Services stated that it has analyzed the payroll expenditure data for state fiscal year 2009–10 and determined that the expenditures charged to the Disability Insurance program by the Financial Services Bureau are valid. It indicated that the analysis is based on a statistically valid method of sampling and allocating expenditures to the various programs administered by Social Services during the period questioned; therefore, Social Services should not have any questioned costs.

According to Social Services, as of October 25, 2010, staff in the Financial Services Bureau began completing monthly employee time reports which reflect the actual activities being performed and for which the employees are being compensated.

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.