



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

Audit Report

Costs Claimed by the California Disability Determination Services

A-55-20-00007 | September 2021



Office of the Inspector General

SOCIAL SECURITY ADMINISTRATION

September 24, 2021

Ms. Sandra LeBaron
Deputy Director
California Disability Determinations Services
2420 Del Paso Road, Suite 150B
Sacramento, CA 95834

Dear Ms. LeBaron:

The Social Security Administration (SSA) contracted with Grant Thornton LLP (Grant Thornton), an independent certified public accounting firm, to conduct an administrative cost audit of the California Disability Determination Services for the periods October 1, 2016 through September 30, 2017 and October 1, 2017 through September 30, 2018. Grant Thornton's performance audit objectives were to:

- evaluate internal controls over the accounting and reporting of administrative costs;
- determine whether the administrative costs claimed on the March 31, 2020 *State Agency Report of Obligations for Social Security Administration Disability Programs* (Form SSA-4513) were allowable and properly allocated;
- reconcile funds drawn down with claimed costs; and
- assess the general security controls environment.

The enclosed final report presents the results of Grant Thornton's audit. Grant Thornton is responsible for the report and the opinions and conclusions expressed therein. The Office of the Inspector General (OIG) was responsible for technical and administrative oversight of Grant Thornton's performance under the contract terms. We monitored Grant Thornton's work by:

- evaluating the independence, objectivity, and qualifications of the auditors and specialists;
- monitoring the audit's progress at key points;
- examining Grant Thornton's documentation related to planning the audit, assessing internal control, and substantive testing;
- reviewing and coordinating the issuance of Grant Thornton's audit report; and
- performing other procedures we deemed necessary.

Our monitoring disclosed no instances where Grant Thornton did not comply, in all material respects, with the standards for performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Page 2 – Sandra LeBaron

The California Disability Determination Services should provide SSA a corrective action plan within 60 days that addresses each recommendation. If you wish to discuss the final report, please call me or have your staff contact Vicki Vetter, Director of the Financial Audit Division.

Sincerely,

A handwritten signature in dark ink that reads "Michelle L. Anderson". The signature is written in a cursive, flowing style.

Michelle L. Anderson
Assistant Inspector General for Audit

Enclosure

cc:

Grace M. Kim, Deputy Commissioner, Operations
Kim Johnson, Director, California Department of Social Services

Costs Claimed by the California Disability Determination Services

A-55-20-00007



September 2021

Office of Audit Report Summary

Objective

To (1) evaluate internal controls over the accounting and reporting of administrative costs by the California Disability Determination Services (CA-DDS) for Fiscal Years (FY) 2017 and 2018; (2) determine whether the administrative costs claimed on the most recently submitted Form SSA-4513 were allowable and properly allocated; (3) reconcile funds drawn down with claimed costs; and (4) assess the general security controls environment.

Background

CA-DDS performs disability determinations under the Social Security Administration's (SSA) Disability Insurance and Supplemental Security Income programs in accordance with Federal regulations. CA-DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses CA-DDS for 100 percent of allowable expenditures, including direct and indirect costs. The CA-DDS' parent agency is the California Department of Social Services.

SSA contracted with Grant Thornton LLP (Grant Thornton) to conduct this audit. The Office of the Inspector General was responsible for technical and administrative oversight of Grant Thornton's performance under the contract terms.

Findings

Grant Thornton found the CA-DDS' controls over the accounting and reporting of administrative costs for FYs 2017 and 2018 as well as its general security controls could be strengthened to ensure compliance with applicable criteria.

As of March 31, 2020, Grant Thornton noted that projected administrative costs of \$3,605,803 and \$6,891,909 as claimed on the Forms SSA-4513 for FYs 2017 and 2018, respectively did not meet criteria for allowability. Additionally, the auditors found that cumulative drawdowns exceeded cumulative disbursements for FY 2017 by \$472,630.

Recommendations

Grant Thornton outlined 6 recommendations for the CA-DDS to enhance its internal control environment for control gaps and other findings noted during its audit. Grant Thornton outlined recommendations in a separate memorandum for general security controls.

The full text of the CA-DDS' response is included in Appendix C. SSA was provided the report for comment and, although not required, did not provide comments on the recommendations.

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ABBREVIATIONS

Act	<i>Social Security Act</i>
CA-DDS	California Disability Determination Services
DSS	Department of Social Services
CE	Consultative Examinations
C.F.R.	Code of Federal Regulations
CPT	Current Procedural Terminology
DDS	Disability Determination Services
DI	Disability Insurance Program
FY	Fiscal Year
Form SSA-4513	<i>State Agency Report of Obligations for SSA Disability Programs</i>
MIDAS	Modernized Integrated Disability Adjudication System
POMS	Program Operations Manual System
OIG	Office of the Inspector General
SSA	Social Security Administration
SSI	Supplemental Security Income
U.S.C.	United States Code

MEMORANDUM

Date: September 24, 2021

To: Gail S. Ennis
Inspector General

From: Grant Thornton LLP

Subject: **GRANT THORNTON AUDIT REPORT – COSTS CLAIMED BY THE CALIFORNIA DISABILITY DETERMINATION SERVICES**

We have conducted a performance audit (also referred to as an “audit” herein) on the California Disability Determination Services’ (CA-DDS) administrative costs incurred in connection with conducting disability determinations in support of the Social Security Administration (SSA) (the “program”) by (1) determining whether the administrative costs claimed for the years ended September 30, 2017 and 2018 the *State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513)*, adjusted through March 31, 2020, were allowed and properly allocated; (2) reconciling funds drawn down with claimed costs on those forms; and (3) evaluating the internal controls over the accounting and reporting of administrative costs for the same period. We also (4) assessed the general security controls environment by conducting inquiries and inspections for the period from October 1, 2019 through September 30, 2020 as well as observations through March 31, 2021 (as further described in Appendix A). (Items 1-4 represent the “audit objectives”).

The applicable criteria are set forth in the Code of Federal Regulations (C.F.R.) Title 2 – *Grants and Agreements*, Subchapter A, Chapter II, Part 225 *Cost Principles for State, Local, and Indian Tribal Governments* (2 C.F.R., part 225) and the Government Accountability Office’s *Federal Information System Controls Audit Manual*, in addition to applicable criteria that are identified in the body of the accompanying report. It is the responsibility of the CA-DDS’ management to conduct the program in accordance with the criteria and the program objectives. Our responsibility is to report our findings and conclusions related to the audit objectives.

We conducted this performance audit in accordance with the standards for performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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. A performance audit involves performing procedures to obtain evidence about the CA-DDS’ program in order to audit administrative costs and the related internal controls, as well as general security controls, as outlined in the audit objectives in the opening paragraph above. The nature, timing, and extent of the procedures selected depend on our judgment. A performance audit also includes consideration of internal controls related to the program and audit objectives as a basis for designing procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the CA-DDS’ internal control. Accordingly, we express no such conclusion related to the CA-DDS’ internal controls. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our findings and conclusions based on our audit objectives.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objectives of this performance audit were (1) to determine whether the administrative costs claimed for the years ended September 30, 2017 and 2018 on the Form SSA-4513, adjusted through March 31, 2020, were allowed and properly allocated; (2) reconciling funds drawn down with claimed costs on those forms; and (3) evaluating the internal controls over the accounting and reporting of administrative costs for the same period. We also (4) assessed the general security controls environment by conducting inquiries and inspections for the period from October 1, 2019 through September 30, 2020 as well as walkthroughs through March 31, 2021.

To accomplish these objectives, we gained an understanding of the processes and information systems CA-DDS used to account for the administrative costs it incurred in connection with conducting disability determinations in support of SSA. We interviewed appropriate CA-DDS staff as well as SSA regional office representatives; inspected available written CA-DDS procedures, applicable Federal regulations, the *Social Security Act* (Act), SSA policies and procedures pertaining to the CA-DDS and prior work performed by SSA or its Office of the Inspector General over DDS administrative costs. In addition, we performed live walkthroughs of business processes and information systems, obtained transactional listings, ascertained the completeness of the listings, and compared a sample of transactions to supporting documentation to corroborate administrative costs claimed and funds drawn down. Our tests of the general security system environment comprised tests over physical and system security controls consisting of live walkthroughs, inspections, and inquiries. In some instances, information we requested was not made available to us; therefore, our approach was limited in certain aspects as further described below.

To meet the above objectives, we defined our scope based on areas of audit significance. For financial data, we determined significance based on CA-DDS' total claimed costs presented on the Form SSA-4513 for each applicable fiscal year (FY). In FYs 2017 and 2018 as of March 31, 2020, the CA-DDS claimed administrative costs totaling approximately \$460 million (\$236,112,755 and \$223,901,497, respectively). Refer to Appendix B for the Form SSA-4513 for each FY. We used a variety of statistical and non-statistical sampling techniques to test the 4513 line items. Where statistical sampling was used, we projected any errors noted to the entire population.

For information security testing, our scope was limited to the CA-DDS' general security environment and its disability case processing system. Refer to Appendix A for a list of general security controls that were in scope.

BACKGROUND

The Disability Insurance (DI)¹ program, established under Title II of the Act, provides benefits to wage earners and their families in the event the wage earner becomes disabled. The

¹ The DI program provides benefits to wage earners and their families who meet certain criteria if the wage earner becomes disabled or dies. See 20 C.F.R. sections 404.315, 404.330, and 404.350 (ecfr.gov).

Supplemental Security Income (SSI)² program, established under Title XVI of the Act, provides benefits to financially needy individuals who are aged, blind, and/or disabled.

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) and Federal disability units in each State and U.S. territory as well as the District of Columbia in accordance with Federal regulations. In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS is authorized to purchase medical examinations, X-rays, and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA reimburses the CA-DDS for 100 percent of allowable expenditures incurred in connection with conducting disability determinations. Allowable expenditures include both direct and indirect costs. Direct costs can be identified with a particular cost objective. Indirect costs arise from activities that benefit multiple programs but are not readily assignable to these programs without effort disproportionate to the results achieved. The CA-DDS claims reimbursement for both direct and indirect costs claimed from SSA in relation to its disability programs.

The CA-DDS uses various customized systems to process disability claims and other non-SSA workloads and has responsibility for security measures for its sites and systems. SSA requires that the CA-DDS comply with its Program Operations Manual System (POMS).³

The CA-DDS' parent agency is the California Department of Social Services (DSS), which provides the CA-DDS with financial, accounting, and personnel services and performs tasks such as approval of all DDS-related payments, payroll processing, and indirect cost allocations.

RESULTS

Our audit procedures were performed on items determined to be in-scope as described above and where relevant information was made available to us.

Objective 1: Evaluate Internal Control over the Accounting and Reporting of Administrative Costs

Our testing disclosed instances where the CA-DDS' internal controls over the accounting and reporting of administrative costs for FYs 2017 and 2018 could have been strengthened.

Verification of Medical Qualifications

For FYs 2017 and 2018, the CA-DDS did not provide sufficient evidence that it verified the qualifications and credentials for sampled providers it hires to perform disability determinations,

² The SSI program provides a minimum level of income for people who are age 65 or older or who are blind or disabled and who do not have sufficient income and resources to maintain a standard of living at the established Federal minimum income level. See 20 C.F.R. section 416.110 (ecfr.gov).

³ The POMS is a primary source of information used by Social Security employees to process claims for Social Security benefits (<https://secure.ssa.gov/apps10/>).

as required. For instance, for FY 2018, the CA-DDS did not provide evidence that a review of the System for Award Management was performed for 6 of 50 sampled medical consultants nor did it provide documented evidence for 22 of 57 sample consultative examination (CE) providers that medical credentials were verified by an appropriate individual. Similar findings were noted for FY 2017.

Per POMS,⁴ before using the services of any new medical or psychological consultant, a DDS must verify licenses, credentials, and certifications with State boards. The documentation should include the date and name of the individual who completes the verification and the date the verification was completed.

Although this condition did not result in any unallowable charges being represented within the Form SSA-4513, the lack of consistent documentation evidencing a date of review of required medical consultant credentials affects management's ability to monitor its medical consultants and ensure compliance with POMS criteria for medical consultants who provide services for the CA-DDS.

Current Procedural Terminology (CPT) Codes

The CA-DDS was unable to provide a crosswalk to identify the CPT codes for 239 and 247 Modernized Integrated Disability Adjudication System (MIDAS)⁵ codes for FYs 2017 and 2018, respectively. During our walkthrough, it was noted that the CA-DDS does not follow the American Medical Association (AMA) CPT coding structure. Management does not maintain documentation of a reconciliation or crosswalk from nonstandard CPT codes used in its case processing system to the AMA CPT codes to ensure that CPT codes used are appropriate as required by POMS.⁶ Although this condition did not result in any unallowable charges being represented within the Form SSA-4513, management's failure to reconcile its CPT codes to generally accepted AMA codes increases the risk of improper coding and unallowable expenditures.

Appropriate Approvals and Documentation

For the FYs 2017 and 2018, the CA-DDS did not consistently obtain the appropriate approvals for fee schedule increases or documentation to support costs incurred for Medical Evidence of Record (MER) or CE orders. For example, for FY 2017, the DDS was unable to provide SSA approval of fee schedule increases for 58 of 373 fees that exceeded the maximum allowable rate or authorized travel approval for 1 of 10 all other non-personnel samples. Additionally, DDS was unable to identify the approval of the CE order form for 8 of 53 CE samples. We noted similar findings for FY 2018. CA-DDS does not have a control in place to maintain SSA approval of fee increases for previous years or controls that ensure applicant travel costs are approved

⁴ SSA, POMS, DI 39569.300 *Disability Determination Services Requirements for Ensuring Licensures, Credentials, and Exclusions of Consultative Examination (CE) Providers, CE Provider's Employees, Medical and Psychological Consultants.*

⁵ MIDAS represents CA legacy system used to process its disability case reviews.

⁶ SSA, POMS, DI 39545.650 *Using the Medicare Fee Schedule and Current Procedural Terminology (CPT) Codes* and DI 39545.675 *Exhibit 3 – DDS Guide to Establishing a Fee Schedule.*

by an appropriate individual. Management should obtain the appropriate approvals and retain adequate documentation in accordance with s C.F.R. part 225.

Although this condition did not result in any unallowable charges being represented within the Form SSA-4513, the lack of approval documentation increases the risk that the CA-DDS management will incur fees that exceed the maximum allowable rate and incur expenses for unapproved travel and other costs.

Payroll Support

For FYs 2017 and 2018, the CA-DDS was not able to provide adequate supporting documentation for employee salaries and employer paid benefits. For instance, for FY 2017, the CA-DDS was unable to provide miscellaneous deduction registers for 50 of 50 samples, as the registers were not readily available. Additionally, CA-DDS was unable to provide time reporting summaries that evidence the approval of federal and state allocation percentages for 50 of 50 samples. We noted similar findings for FY 2018. Although this condition did not result in any unallowable charges being represented within the Form SSA-4513, management's lack of appropriate compensation documentation in accordance with 2 C.F.R. part 225 increases the risk of unallowable expenses.

Transaction Postings to Incorrect Fiscal Year

The CA-DDS recorded FY 2018 costs as part of FY 2017 activity for 2 of 10 samples. CA-DDS management's control to ensure costs are recorded in the appropriate award year is not implemented as designed and not in accordance with 2 C.F.R. part 225.

Objective 2: Determine Whether the Administrative Costs Claimed on the Most Recently Submitted Form SSA-4513 Were Allowable and Properly Allocated

Based on the procedures we followed to determine whether administrative costs were allowable and properly allocated, we determined that administrative costs, as shown in Table 1, did not meet the criteria for allowability per 2 C.F.R. part 225.

Unsupported Indirect Costs

The CA-DDS did not provide adequate documentation to support indirect cost disbursements for 9 of the FY 2017 and 16 of the FY 2018 samples selected for testing. We requested original invoices and payroll detail (for allocated payroll costs) to support the allocation base and percentage (factor) calculations for each sample. As one example, in FY 2017, CA-DDS could not provide any supporting documentation for 4 of 25 samples due to its inability to pull information from a decommissioned accounting system. In another example, for 2 of the 25 samples, the CA-DDS could not provide support that agreed to the costs recorded in the Form SSA-4513. There were similar findings noted for FY 2018.

CA-DDS did not have controls in place to ensure that adequate supporting documentation is maintained to support its transactional details. Additionally, the DDS was unable to determine which costs in the batch support were associated with the appropriate award year because some of the support was provided in batch amounts and included additional expenses that were not recorded in the fiscal year. As a result of the lack of documentation provided, we

determined total monetary errors of \$59,848 and \$410,037 and projected errors of \$3,417,676 and \$5,935,520 for FYs 2017 and 2018, respectively, as noted in Table 1 (“indirect costs” line item).

All Other Non-Personnel Costs

For FY 2018, CA-DDS did not provide documentation to support 1 of 12 samples selected from the All Other Non-personnel Costs line item. During testing, we requested invoices, contracts, and payment history for all samples to support the costs recorded in the Form SSA-4513. Management did not maintain adequate documentation to support or explain expenses in accordance with 2 C.F.R., part 225.

The lack of documentation impacts management’s ability to properly support costs reported on the Form SSA-4513 and resulted in a monetary error of \$80,383 and projected error of \$956,389 for FY 2018, as noted in Table 1 (“all-other non-personnel cost” line item).

Overtime Pay

For FY 2017, CA-DDS did not provide sufficient supporting documentation, including relevant timesheets, to recalculate overtime pay reflected in the Form SSA-4513 for 4 of 50 samples tested. Management did not maintain adequate documentation to support or explain expenses in accordance with 2 C.F.R., part 225.

The lack of documentation impacts management’s ability to properly support costs reported on the Form SSA-4513 and resulted in a monetary error of \$392 and projected error of \$188,127 for FY 2017, as noted in Table 1 (“personnel service cost” line item).

Table 1: CA-DDS Projected Unsupported Costs

Line Item	Projected Unsupportable Amounts	
	FY 2017	FY 2018
Personnel Service Costs	\$ 188,127	\$ 0
Indirect Costs	3,417,676	5,935,520
All Other Non-personnel Costs	0	956,389
Total	\$ 3,605,803	\$ 6,891,909

Objective 3: Reconcile Funds Drawn Down with Claimed Costs

Cash Drawdowns

SSA reimburses CA-DDS for 100 percent of allowable expenditures, including direct and indirect costs. During our cash management testing for the period ended March 31, 2020, we compared the total cash disbursements per the SSA-4513s to the cash drawdown per the ASAP report. For FY 2017 as of the March 31, 2020 reporting period, the CA-DDS had drawn down the authorized award amount of \$236,585,385 rather than the amount of disbursements it made

for that same period of \$236,112,755 . This resulted in excess drawdowns of \$472,630 in overdrawn funds as of March 31, 2020.

The CA-DDS draws down funding based on estimated amounts rather than actual expenses incurred. The estimates in this case exceeded the actual expenses which resulted in the overdrawn amount noted above.

Per C.F.R., Title 31 – *Money and Finance: Treasury*, subchapter A, chapter II, part 205 *Rules and Procedures for Efficient Federal-State Funds Transfers* (31 C.F.R., part 205.12), reimbursable funding means a Federal agency transfers Federal funds to a State after that State has already paid out the funds to a Federal assistance program. As noted above, the CA-DDS requested funding from SSA prior to having paid out the funds which is inconsistent with the reimbursement criteria stated in 31 C.F.R., part 205.12.

Objective 4: Assess the General Security Controls Environment

Grant Thornton assessed the design and implementation of general security controls as they pertained to the CA-DDS and its legacy case processing system, a server that resides on the SSA network. In addition, we assessed the operating effectiveness of specific physical access and systems access controls, determined based on control objective and frequency. The objective and scope of testing of general security controls tested are defined in Appendix A. Due to the sensitive nature of these controls, we present the results and associated findings in a separate memorandum.

CONCLUSIONS AND RECOMMENDATIONS

Based on the procedures performed, we noted areas where internal control over accounting and reporting of administrative costs as well as general security controls needed improvement. We noted that projected administrative costs of \$3,605,803, and \$6,891,909 as claimed on the Form SSA-4513 for FYs 2017 and 2018, respectively, as of March 31, 2020 did not meet criteria for allowability. Additionally, cumulative drawdowns exceeded cumulative disbursements for FY 2017 by \$472,630. We have the following recommendations.

Objective 1

1. We recommend CA-DDS maintain sufficient documentation to evidence the date that all required medical credentials and qualifications are verified by an appropriate employee.
2. We recommend that management perform, document, and retain the reconciliation/crosswalk annually or when updates are made to compare and determine whether the CA-DDS' fee does not exceed the regulatory requirements in accordance with POMS, DI 39545.650, and POMS, DI 39545.675.
3. We recommend that CA-DDS management implement procedures to review and retain appropriate documentation that will support medical and payroll expenses reported on Form SSA-4513 and in compliance with 2 C.F.R., part 225, Appendix A, section C.

Objective 2

4. We recommend that CA-DDS management implement procedures to review and retain appropriate documentation that will support indirect, all other non-personnel, and payroll expenses reported on Form SSA-4513 and in compliance with 2 C.F.R., part 225, Appendix A, section C.

Objective 3

5. We recommend CA-DDS work with its parent agency, DSS, to ensure the amount of reimbursement is limited to the appropriate amount (the amount of disbursements) before the draw down occurs.
6. We recommend CA-DDS analyze the amounts of disbursements claimed for FY 2017 and reconcile to its drawdown submissions to determine whether any excess drawdowns remains and, if so, to return to SSA the overdrawn amount.

Objective 4

Due to the sensitive nature of general security controls, we present recommendations for the CA-DDS to strengthen its general security controls environment in a separate memorandum.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have issued reportable findings in the body of this report. The purpose of this reporting is to communicate, as applicable, noncompliance with the criteria; deficiencies in internal control; and instances of fraud, or noncompliance with the provisions of laws, regulations, contracts or grant agreements that are significant within the context of the audit objectives. It also includes those deficiencies in internal control that are not significant within the context of the audit objectives, but which warrant the attention of those charged with governance. Reporting these items is an integral part of a performance audit performed in accordance with *Government Auditing Standards* in considering the CA-DDS's internal control and compliance related to the audit objectives.

CA-DDS' RESPONSE

The full text of the CA-DDS' response is included in Appendix C. The CA-DDS' response to our findings was not subjected to the auditing procedures applied in the audit, and accordingly, we express no opinion on the CA-DDS' response. We evaluated the additional context provided by the CA-DDS in its response to the audit findings. While we understand the demands that an audit can create on entity operations, our findings reflect departures that we noted from the applicable criteria as well as the lack of available evidence to substantiate costs claimed by the CA-DDS for reimbursement and other documentation necessary to fulfill the objectives of the audit. SSA was provided the report for comment and, although not required, did not provide comments on the recommendations.

Intended Purpose

The purpose of this performance audit report is solely to report our findings and conclusions in relation to the audit objectives. Accordingly, this report is not suitable for any other purpose.

Brent Thornton LLP

Baltimore, Maryland
September 24, 2021

APPENDICES

Appendix A – SCOPE AND METHODOLOGY

We obtained sufficient, appropriate evidence to evaluate the performance audit objectives for the California Disability Determination Service (DDS) in accordance with applicable *Government Auditing Standards* (GAS). To accomplish the objectives, we completed the following.

- Reviewed the applicable Federal regulations, the *Social Security Act*, and SSA Program Operations Manual System (POMS).
- Reviewed prior Office of the Inspector General (OIG) work over the California DDS as well as available and relevant Single Audits performed by the State's auditor.
- Communicated with the Social Security Administration's (SSA) Office of Disability Determination, SSA's San Francisco Regional Office, California DDS, and the California Department of Social Services (Parent Agency) staff to obtain background information.
- Reconciled CA-DDS transactional listings to the administrative costs reported on its submitted Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*, for Federal Fiscal Years (FY) 2017 and 2018.

The fourth audit objective was to assess general security controls. Due to the sensitive nature of general security controls, we presented the results and recommendations in a separate memorandum.

We determined and applied the following performance materiality for each tested fiscal year as shown in Table A-1.

Table A-1: CA-DDS Performance Materiality

Materiality Type	FY 2017	FY 2018
Performance Materiality	\$2,479,000	\$2,183,000

Sampling

Our sampling methodology encompassed four general areas of costs as reported on the Social Security Administration's (SSA) Form SSA-4513, *State Agency Report of Obligations for SSA Disability Programs*: (1) Personnel, (2) Medical, (3) Indirect, and (4) All Other Non-personnel Costs.

Personnel Service Costs

For payroll costs, we randomly selected two pay periods and a total 50 samples for each fiscal year for FYs 2017 and 2018.

Medical Costs

For consultative examinations, we used Monetary Unit Sampling (MUS) sampling and selected 53 and 57 for FY2017 and FY2018, respectively. Calculated within the sampling tool, consultative examinations calculated a total of 35 and 32 for FY2017 and FY2018, respectively. In accordance with the sampling methodology, negative values are removed from the population

and sampled based on the positive values resulting in the totals selected through MUS sampling. For medical evidence of records transactions, the MUS sampling tool calculated a sample of 8 MER selection for FY2017 and FY2018. The discrepancies between the sampling tool and the sample selections are due to selecting the recommended sample size of 50 or more.

Indirect Costs

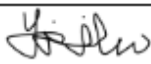
For indirect costs, the total population for negatives did not exceeded our materiality. Therefore we used MUS sampling and selected 28 positive samples for FY2017, and 33 positive samples for FY2018. The sample size is synonymous with the IDEA selected sample size.

All Other Non-Personnel Costs

Before selecting the sample items, we segregated high dollar value transactions related to lease payments within occupancy costs and will test these items in their entirety. The remainder of the costs within All Other Non-Personnel Costs were subject to MUS. We randomly selected 10 and 12 samples for FY2017 and FY2018, respectively. Calculated within the sampling tool, Other Non-Personnel Costs calculated a total of 10 for FY2017, and 11 for FY2018. In accordance with the sampling methodology, negative values are removed from the population and sampled based on the positive values resulting in the totals selected through MUS sampling.

Appendix B – FORMS SSA-4513

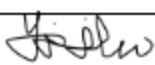
FY2017 State Agency Report of Obligations for SSA Disability Programs

Social Security Administration		Form Approved OMB No. 0960-0421	
STATE AGENCY REPORT OF OBLIGATIONS FOR SSA DISABILITY PROGRAMS			
(See attached Instructions and Paperwork/Privacy Act Notice)			
NAME OF AGENCY		STATE	
CALIFORNIA STATE DEPARTMENT OF SOCIAL SERVICES 744 P STREET, MS 09-4-76 SACRAMENTO, CA 95814		CALIFORNIA DUNS #613673185	
FISCAL YEAR	FOR PERIOD		
2017	From: 10/01/16 To: 03/31/2020		
REPORTING ITEMS - ALL TITLES	(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS	(C) TOTAL OBLIGATIONS
1. Personnel Service Costs	148,180,724	0	148,180,724
2. Medical Costs <i>(sum of 2a+2b)</i>	47,258,288	0	47,258,289
a. Consultative Examinations <i>(sum of a1+a2+a3)</i>	38,770,025	0	38,770,026
1) Disability Insurance (DI) Claims	10,461,132	0	10,461,132
2) Supplemental Security Income (SSI) Claims	21,188,336	0	21,188,336
3) Concurrent DI/SSI Claims	7,120,557	0	7,120,557
b. Medical Evidence of Record <i>(sum of b1+b2+b3)</i>	8,488,263	0	8,488,263
1) Disability Insurance (DI) Claims	3,135,379	0	3,135,379
2) Supplemental Security Income (SSI) Claims	3,393,497	0	3,393,497
3) Concurrent DI/SSI Claims	1,959,387	0	1,959,387
3. Indirect Costs <i>[see attached addendum]</i>	23,923,718	0	23,923,718
4. All Other Nonpersonnel Costs	16,750,024	1,149,405	17,899,429
a. Occupancy	12,126,270	0	12,126,270
b. Contracted Costs (exclude EDP)	492,426	0	492,426
c. EDP Maintenance	236,460	56,557	293,017
d. New EDP Equipment/Upgrades	298	0	298
e. Equipment Total	290,710	0	290,710
1) Purchases	290,710	0	290,710
2) Rental	0	0	0
f. Communications	1,663,542	0	1,663,542
g. Applicant Travel	180,205	0	180,205
h. DDS Travel	356,201	0	356,201
i. Supplies	202,252	0	202,252
j. Miscellaneous	1,201,660	1,092,847	2,294,507
5. Total: <i>(sum of 1 thru 4)</i>	236,112,755	1,149,405	237,262,160
6. Cumulative Obligational Authorization			237,262,160
7. SSA-871 Attached? YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>			
I CERTIFY THAT THE ABOVE REPORT AND ANY SUPPORTING STATEMENTS ARE TRUE STATEMENTS OF DISBURSEMENTS AND UNLIQUIDATED OBLIGATIONS FOR DETERMINATIONS OF DISABILITY UNDER THE PROVISIONS OF THE SOCIAL SECURITY ACT, AS AMENDED.			
SIGNATURE	TITLE	DATE	
	Yiping Hu, Manager Federal Reporting Unit	4/30/20	

Remark: Current Cash on Hand is \$472,736.44. ARF 164076 (Roseville) \$935,000.00.

Form SSA-4513

FY2018 State Agency Report of Obligations for SSA Disability Programs

Social Security Administration		Form Approved OMB No. 0980-0421	
STATE AGENCY REPORT OF OBLIGATIONS FOR SSA DISABILITY PROGRAMS (See attached Instructions and Paperwork/Privacy Act Notice)			
NAME OF AGENCY		STATE	
CALIFORNIA STATE DEPARTMENT OF SOCIAL SERVICES 744 P STREET, MS 09-4-76 SACRAMENTO, CA 95814		CALIFORNIA DUNS #613673185	
FISCAL YEAR	FOR PERIOD		
2018	From:	10/01/17	To: 03/31/2020
REPORTING ITEMS - ALL TITLES	(A) DISBURSEMENTS	(B) UNLIQUIDATED OBLIGATIONS	(C) TOTAL OBLIGATIONS
1. Personnel Service Costs	144,439,472	14,620	144,454,092
2. Medical Costs (sum of 2a+2b)	38,817,653	13,380	38,831,033
a. Consultative Examinations (sum of a1+a2+a3)	31,115,118	0	31,115,118
1) Disability Insurance (DI) Claims	8,809,865	0	8,809,865
2) Supplemental Security Income (SSI) Claims	16,524,712	0	16,524,712
3) Concurrent DI/SSI Claims	5,780,540	0	5,780,540
b. Medical Evidence of Record (sum of b1+b2+b3)	7,702,535	13,380	7,715,915
1) Disability Insurance (DI) Claims	2,847,619	0	2,847,619
2) Supplemental Security Income (SSI) Claims	3,093,827	13,379	3,107,206
3) Concurrent DI/SSI Claims	1,761,090	0	1,761,090
3. Indirect Costs [see attached addendum]	24,484,000	75,346	24,559,346
4. All Other Nonpersonnel Costs	16,160,372	12,837	16,173,209
a. Occupancy	11,603,217	12,587	11,615,804
b. Contracted Costs (exclude EDP)	527,998	0	527,998
c. EDP Maintenance	200,652	0	200,652
d. New EDP Equipment/Upgrades	262	0	262
e. Equipment Total	349,510	200	349,710
1) Purchases	349,510	200	349,710
2) Rental	0	0	0
f. Communications	1,319,338	0	1,319,338
g. Applicant Travel	151,932	0	151,932
h. DDS Travel	328,690	0	328,690
i. Supplies	291,911	0	291,911
j. Miscellaneous	1,386,861	50	1,386,911
5. Total: (sum of 1 thru 4)	223,901,497	116,183	224,017,680
6. Cumulative Obligational Authorization			224,017,680
7. SSA-871 Attached? YES <input type="checkbox"/> NO <input checked="" type="checkbox"/>			
I CERTIFY THAT THE ABOVE REPORT AND ANY SUPPORTING STATEMENTS ARE TRUE STATEMENTS OF DISBURSEMENTS AND UNLIQUIDATED OBLIGATIONS FOR DETERMINATIONS OF DISABILITY UNDER THE PROVISIONS OF THE SOCIAL SECURITY ACT, AS AMENDED.			
SIGNATURE	TITLE	DATE	
	Yiping Hu, Manager Federal Reporting Unit	4/30/20	

Remark: Current Cash on Hand is \$116,183.00

Form SSA-4513

Appendix C – CALIFORNIA DDS' RESPONSE



STATE OF CALIFORNIA—HEALTH AND HUMAN SERVICES AGENCY
DEPARTMENT OF SOCIAL SERVICES
Disability Determination Service Division



August 25, 2021

Michelle L. Anderson
Assistant Inspector General for Audit
SSA-OIG Office of Audit
6401 Security Boulevard, Suite 300
Altmeyer Building
Baltimore, MD 21235-0001

SUBJECT: COSTS CLAIMED BY THE CALIFORNIA DISABILITY DETERMINATION
SERVICE (A-55-20-00007)

Dear Michelle L. Anderson:

This letter is in response to your letter dated July 23, 2021, that transmitted the draft report for the above referenced audit and requested comments from the California Disability Determination Service (CA-DDS) within 30 days.

The audit conducted by Grant Thornton LLP (GT) on the CA-DDS results in certain findings and recommendations, which California considers to be unreasonable, especially against the backdrop of a worldwide health pandemic and the catastrophic wildfires experienced by California in 2020. The method, scope and timing of this audit gave no consideration to the impacts these events had on CA-DDS's ability to timely respond to GT's requests. These concerns were relayed in communications to SSA-OIG and GT during the entrance conference and various follow up discussions. California ultimately provided supporting documentation for certain findings which was not reviewed or considered by GT. The failure to consider provided documentation cannot support a finding that internal controls did not exist or were not appropriately followed. California has provided evidence that is competent, sufficient and reliable to demonstrate that certain findings are inaccurate and unreasonable. This information should be reviewed and considered.

Furthermore, in past years, SSA has selected California for a variety of audits. However, this audit, completely virtual and unlike any other, removed the appropriate interaction with GT which was necessary to gain complete understanding of requests or

GT's understanding of the CA-DDS process, thus adding time to our responses during the sampling portion of the audit and leading to findings with recommendations to be discussed. It is our experience that face-to-face interaction gained a more comprehensive understanding of the auditor's request, resulting in California's ability to provide the requested documentation and support to meet the audit objectives more efficiently.

Given the timing, depth and scope of this audit, the external factors impacting California, and a completely virtual platform with no on-sight presence by Grant Thornton auditors for the financial or security controls, California disagrees with the monetary finding of \$550,660, with projected error of \$10,497,712. Additionally, we disagree with the finding and recommendation to return \$472,630 of cash on hand for FY2017.

In response, California provides the following to the four objectives and the ten associated recommendations listed in the draft SSA-OIG report dated July 2021:

Objective 1:

Verification of Medical Qualification

Recommendation #1 - We recommend CA-DDS maintain sufficient documentation to evidence the date that all required medical credentials and qualifications are verified by an appropriate employee.

CA-DDS Response: California agrees with this finding and recommendation. Accordingly, we have aligned our policies and procedures with the associated SSA policy.

Current Procedural Terminology (CPT) Codes

Recommendation #2 - We recommend that management perform, document, and retain the reconciliation/crosswalk annually or when updates are made to compare and determine whether the CA-DDS' fee does not exceed the regulatory requirements in accordance with POMS, DI 39545.650, and POMS, DI 39545.675.

CA-DDS Response: California disagrees with this finding and recommendation regarding the Current Procedural Terminology (CPT) Codes. All CPT codes used in the fee schedule are submitted to the SSA in the Annual CE Oversight Report for review. This includes any changes or updates to existing codes in the fiscal year. CA-DDS asserts that controls are in place to maintain crosswalks, support the review performed, and maintain compliance with the referenced POMS for both FY2017 and FY2018. CA-DDS has submitted these procedures to SSA for review and approval pursuant to POMS. As such, CA-DDS disagrees with the finding and recommendation for CPT codes or appropriate approval and documentation of fee schedule increases for FY2017 or FY2018.

[Appropriate Approvals and Documentation](#)

[Payroll Support](#)

[Transaction Posting on Incorrect Fiscal Year](#)

Recommendation #3 - We recommend that CA-DDS management implement procedures to review and retain appropriate documentation that will support medical and payroll expenses reported on Form SSA-4513 and in compliance with 2 C.F.R., part 225, Appendix A, section C.

Appropriate Approvals and Documentation

CA-DDS Response: California concurs, as we were unable to provide adequate documentation and support all costs incurred for Medical Evidence of Record or Consultative Exams ordered to ensure all applicant travel costs were approved by appropriate individuals for FY2017, with similar findings for FY2018. Further, we agree with the GT recommendation, and have aligned California's policies and procedures with the associated federal policy.

Payroll Support

CA-DDS Response: California disagrees with the findings for payroll support, as California was able to provide adequate support documentation for employee salaries and employer-paid benefits. GT had requested information by a scheduled timeline, but the timing of the audit in the midst of a worldwide health pandemic and our state's response to other impactful events, such as the 2020 California wildfires, caused delays in California's ability to retrieve the information. CA-DDS noted these circumstances to GT and did in fact provide the information to GT within a reasonable time. However, GT disregarded the CA-DDS communication and did not reflect that support documentation in its findings. As such, California maintains that it has provided appropriate documentation to support payroll expenses as reported on the SSA-4513 and in compliance with federal regulations.

Transaction Posting on Incorrect Fiscal Year

CA-DDS Response: California concurs with the findings for transaction postings to the incorrect fiscal year. As such, appropriate corrections were made in accordance with federal regulations.

Objective 2:

[Unsupported Indirect Cost](#)

[All Other Non-Personnel](#)

[Cost Overtime Pay](#)

Recommendation #4 - We recommend that CA-DDS management implement procedures to review and retain appropriate documentation that will support indirect, all other non-personnel, and payroll expenses reported on Form SSA-4513 and in compliance with 2 C.F.R., part 225, Appendix A, section C.

Unsupported Indirect Cost

CA-DDS Response: California disagrees in part, and concurs in part with this finding. CA-DDS acknowledges that the hard copy support documentation for transactions processed through the California State Accounting and Reporting System (CALSTARS) were not available for review to demonstrate the cost distribution for some allocation percentages of hour/costs charged. However, during the virtual audit fieldwork, California experienced technological challenges as well as challenges in retrieving hard copy support documentation due the decommissioning of CALSTARS, the disruption of COVID-19, and the inability to provide the auditors with in-person walkthroughs. Further, California experienced an unprecedented 2020 wildfire season and a Legislative transfer of 21 programs from another state agency, which caused additional challenges. As noted above, CA-DDS alerted GT to those factors delaying information retrieval and did provide support documentation for items #3, 24 and 28 for FY2017; and #4, 24, 26, 28 and 33 for FY2018 within a reasonable time. However, GT disregarded CA-DDS communication and did not reflect that support documentation in its findings. As such, CA-DDS disagrees with the finding of \$59,848 and the projected error amount of \$3,417,676 for FY2017 and the finding of \$410,036 and projected error amount of \$5,935,520 for FY2018. Further, CA-DDS is confident that accurate and reliable data was input and processed in CALSTARS. Additionally, CA-DDS has created a centralized electronic repository to ensure all support documentation related to costs (original invoices and payroll detail reports) to support the allocation and allocation percentage calculations charged to the Disability Determination Services are retained.

All Other Non-Personnel Cost

CA-DDS Response: California partially concurs with this finding. CA-DDS acknowledges that back-up documentation could not be located to support one of 12 NPC transactions (#8) for FY2018. This sample transaction was a result of a transaction applied to FY2018 and later reversed and applied to the correct FY2017. CA-DDS has controls in place to monitor and review all costs to ensure that all services and costs are recorded in the appropriate award year. For example, during the first quarter of each FFY, CA-DDS has procedures in place to review costs for appropriate support documentation and service period to ensure costs are charged to appropriate year. CA-DDS will continue to closely monitor transactions for adequate backup documentation and to ensure charges are applied to the appropriate FY. CA-DDS asserts that all charges were allowable. Therefore, California does not agree that this one-time transaction of \$80,383 charged in FY2018 and later reversed and charged to the appropriate FY should result in a projected error of \$956,389.

Overtime Pay

CA-DDS Response: California disagrees with this finding. Support documentation for overtime payments made for selected samples has been provided. Overtime compensation is determined by the workweek. Government Code section 19851,

subdivision (a) states that it is the policy of the State that the workweek of state employees is 40 hours. The Fair Labor Standards Act also generally provides for overtime compensation when an employee works more than 40 hours during a workweek. Overtime compensation may be carried over and paid in the following pay period if the workweek overlaps with the end of a pay period. This was applicable to samples included in this finding but not taken into consideration by GT. Therefore, the overtime was paid in compliance with the state's CalHR regulations for employee compensation of salary and wages. As such, CA-DDS disagrees with the finding a monetary error of \$392, with a projected error of \$188,127 for FY2017.

Objective 3:

Cash Drawdowns

Recommendation #5 - We recommend CA-DDS work with its parent agency, DSS, to ensure the amount of reimbursement is limited to the appropriate amount (the amount of disbursements) before the draw down occurs.

CA-DDS Response: California disagrees with this finding and recommendation. The state's responsibility to handle the CA-DDS expenditures timely comes with the process of estimating cash draws for the federal programs at the close of the state fiscal year. When there is an over projection of expenditures, the state returns the funds to a cash on hand (COH) account. Future expenditures are drawn first from COH and the amount of COH is disclosed in the notes with the Form SSA-4513. The GT recommendation does not align with the state's current process, which allows for compliance with state regulations for timely payments of obligations.

Recommendation #6 - We recommend CA-DDS return to SSA the overdrawn amount of \$472,630 for FY 2017.

CA-DDS Response: California disagrees with this finding and recommendation. The overdrawn amount is held in cash on hand (COH) for future undisbursed obligations. The return of the funds would potentially leave California under-funded for future allowable expenditures. As in FY2017, the remaining funds in COH as of the FY2020's 3rd quarter Form SSA-4513, is reduced from the listed \$472,630 to \$3,610, following the appropriate payment of expenditures for FY2017. The amount in cash on hand is appropriately returned with any excess funds remaining in the ASAP account at the close of the FY. As such, CA-DDS does not agree with the finding or recommendation.

Objective 4:

Security Control Environment

Due to the sensitive nature of general security controls, we present recommendations (if any) for the CA-DDS to strengthen its general security control environment in a separate memorandum.

CA-DDS Response: A response to any findings will be provided under a separate cover.

Thank you,

Sandra LeBaron

SANDRA LEBARON

Deputy Director

Disability Determination Service Division

c: Kim Johnson, Director California Department of Social Services
Sandy Chan, DPA

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