

## Department of Social Services

### Investigations of Improper Activities by State Employees, July 2007 Through December 2007

#### INVESTIGATION I2006-1040 (REPORT I2008-1), APRIL 2008

##### *Department of Social Services' response as of September 2008*

We investigated and substantiated an allegation that the Department of Social Services (Social Services) violated state contracting policy and wasted state and federal funds by paying \$14,714 for improper overhead costs.

##### **Finding: Social Services failed to scrutinize invoices and wasted state and federal funds by paying unnecessary overhead costs totaling \$14,714.**

Social Services wasted state and federal funds when it improperly paid for overhead costs that violated a state policy. According to the policy, state agencies must ensure that overhead fees are reasonable; thus, the agencies may pay overhead charges only on the first \$25,000 for each subcontract. However, in seven of the nine contracts we reviewed for conference-planning services from 2004 through 2007, Social Services did not limit payments for overhead costs to the first \$25,000 of subcontracts, but instead paid overhead costs on the entire subcontract amounts when the subcontracts exceeded \$25,000. As a result, Social Services made \$14,714 in improper payments, constituting a waste of state and federal funds. Social Services apparently made these improper payments because it failed to scrutinize invoices and did not monitor these contracts adequately for compliance with state policy. In addition, we found that if Social Services proceeds with four additional contracts for upcoming conferences, it likely will waste an additional \$13,000 in state and federal funds.

##### ***Social Services' Action: Partial corrective action taken.***

At the time of our report, Social Services stated that it had revised its standard contract language to cite the state policy that limits the application of overhead charges on subcontracts. Social Services also reported that it planned to similarly amend the contracts for its upcoming conferences. In addition, Social Services told us that it had requested more detailed budgets from its contractor to better distinguish the services provided by subcontractors. Further, Social Services stated that it planned to develop guidelines that would assist staff in the appropriate application of indirect cost rates and identify subcontracts during contract development. Social Services informed us in May 2008 that the exclusion from its standard contract language of a provision implementing the state policy that limits charges for overhead costs to the first \$25,000 of subcontracts was an administrative oversight and that it did not intend to take any disciplinary action against any of its employees. In September 2008 Social Services reported that it had recouped \$13,171 in overpayments from the contractor. In addition, Social Services indicated that the remaining \$1,543 was not improper because it determined that one of the subcontract

##### ***Investigative Highlight . . .***

*The Department of Social Services wasted \$14,714 in state and federal funds.*

line items greater than \$25,000 contained in the contractor's invoice was for multiple subcontracts, which were each less than \$25,000. Finally, Social Services told us that the contractor had revised its budget detail to facilitate the identification of subcontractors.