
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ARIZONA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2006**

September 2007

A-77-07-00013

**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: September 24, 2007

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of Arizona for the Fiscal Year Ended June 30, 2006 (A-77-07-00013)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of Arizona for the fiscal year ended June 30, 2006. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

The Arizona Auditor General performed the audit. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by the Arizona Auditor General, and the reviews performed by HHS. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

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 Arizona 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 Arizona Department of Economic Security is the Arizona DDS' parent agency.

The single audit reported that the:

1. DDS had little or no supporting documentation for tested expenditure transactions totaling \$7,363 and in adequate internal control policies and procedures to ensure compliance with the program's cost principle requirements (Attachment, pages 4 - 5).
2. DDS did not have adequate internal control policies and procedures in place to ensure fulfillment of procurement, suspension and debarment compliance requirements. The Office of Procurement is helping to draft new agreements for doctors in accordance with the procurement code (Attachment, pages 6 - 7).

We recommend that SSA:

1. Validate whether the \$7,363 expenditures were appropriate.
2. Ensure the DDS has adequate internal control policies and procedures in place to ensure compliance with the program's cost principle requirements.
3. Ensure the DDS follows Arizona procurement rules and regulations.

Please send copies of the final Audit Clearance Document to Ken Bennett and Rona Lawson. If you have questions, contact Ken Bennett at (816) 936-5593.



Patrick P. O'Carroll, Jr.

Attachment

State of Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

06-115

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A4000204, H126A5000205, and H126A6000206**

U.S. Department of Education

Award Period: October 1, 2003 through September 30, 2005,
October 1, 2004 through September 30, 2006, and
October 1, 2005 through September 30, 2007

Questioned Cost: N/A

The Department of Economic Security, Division of Employment and Rehabilitation Services, did not have adequate internal control policies and procedures to accurately complete the RSA-2 Program Cost Report for the year ended June 30, 2005. This report was submitted to the U.S. Department of Education in December 2005. Specifically, the Division was unable to provide supporting documentation for 24 separate fields that presented federal expenditures, types of services, or support years presented on Schedules I through III. In addition, four expenditure amounts presented on Schedule I were understated and did not agree to the Department's accounting system.

This finding did not result in a questioned cost as the RSA-2 Program Cost Report was not used to request reimbursement of federal expenditures. This finding is a reportable condition and immaterial noncompliance with the program's reporting requirements.

To comply with 29 US Code 721(a)(10), the Department should review all reports for accuracy before the report is submitted to the U.S. Department of Education. In addition, the Department should maintain documentation for all financial and performance data included on the RSA-2 Program Cost Report.

06-116

CFDA No.: 96.001 **Social Security—Disability Insurance, #s 010504AZD100 and 010604AZD100**

Social Security Administration

Award Period: October 1, 2004 through September 30, 2005 and
October 1, 2005 through September 30, 2006

Questioned Cost: \$7,363

The Department of Economic Security, Disability Determination Service Administration (DDSA), did not have adequate internal control policies and procedures to ensure compliance with the program's activities allowed or unallowed and allowable costs/cost principles requirements. Specifically, the DDSA had little or no supporting documentation for 9 of 60 expenditure transactions tested that totaled \$7,363. In addition, for another 16 transactions, the DDSA did not include medical diagnosis or accounting codes on the supporting documentation. For these transactions, auditors were able to perform alternate procedures to determine the expenditures were reasonable.

It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. However, based on auditors' evaluation of the cumulative effect of the internal control deficiencies and relation to the program's compliance requirements, this finding is a material internal control weakness and material noncompliance with the program's activities allowed or unallowed and allowable costs/cost principles requirements.

State of Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

To comply with OMB Circular A-87, Attachment A (C)(1)(j), the Department should maintain supporting documentation for each expenditure transaction, such as purchase orders, vendor invoices, and medical reports.

State of Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

To comply with OMB Circular A-87, Attachment A (C)(1)(i), the Department should maintain supporting documentation for each expenditure transaction, such as purchase orders, vendor invoices, and medical reports.

06-117

CFDA No.: 96.001 **Social Security—Disability Insurance, #s 010504AZD100 and 010604AZD100**
Social Security Administration

Award Period: October 1, 2004 through September 30, 2005 and
October 1, 2005 through September 30, 2006

Questioned Cost: N/A

The Department of Economic Security, DDSA, did not have adequate internal control policies and procedures to ensure compliance with procurement and suspension and debarment compliance requirements. Specifically, DDSA entered into contracts with doctors to perform services. However, state purchasing policies and procedures requiring competitive purchasing were not followed. Also, the contracts did not include designated time frames; federal requirements of the Health Insurance Portability and Accountability Act (HIPAA); and complete medical fee schedules. In addition, the DDSA did not provide adequate notice by issuing requests for proposals and request each doctor to submit statements of qualifications. During the period July 1, 2005 through June 30, 2006, the DDSA paid \$2,014,851 to 16 doctors under these contracts. Further, the DDSA paid 4 vendors \$345,088 for imaging services without following competitive purchasing procedures and preparing written contracts. In addition, for all 20 vendors, the DDSA did not verify that the vendor was not suspended or debarred by the federal government. Auditors performed additional test work on the vendors and determined that all services were provided and none of the vendors were suspended or debarred by the federal government.

Auditors were unable to determine questioned costs, if any, that may have resulted from this finding. This finding is a material internal control weakness with the program's procurement and suspension and debarment requirements and material noncompliance with the program's procurement requirements.

To help ensure compliance with 20 CFR §§437.35 and 437.36, the DDSA should follow the Arizona Procurement Rules and Regulations. Specifically, the DDSA should:

- Award all contracts through the Department's Office of Procurement to ensure that contract dates, HIPAA requirements, and fee schedules are included.
- Request statements of qualifications from each doctor that proposes to perform professional services for the Department.
- Obtain a written contract with all vendors providing more than \$50,000 of goods and services to the Department.
- Require the vendor to certify that it had not been suspended or debarred from doing business by the federal government for all purchases over \$25,000.

State of Arizona
Corrective Action Plan
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

Agency description:

The Rehabilitation Services Administration concurs with the finding. By June 30, 2008, the Administration will ensure all future contracts for professional services follow Department procurement policies and procedures. The Administration will also strengthen its internal control for record keeping by training all staff involved in contract management in the area of record retention by September 30, 2007. This year, the auditors examined Administration contracts for the period July 1, 2005 through June 30, 2006. In April of 2006, the Administration implemented a mechanism to check all its vendors on a quarterly basis for suspension and debarment through the Excluded Parties List System maintained by the US General Services Administration.

Contact person: Vanja Pasalic
(602) 542-6296

Agency: Department of Economic Security

CFDA No.: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States,
#s H126A4000204, H126A5000205, and H126A6000206

Finding No.: 06-115

Status: Concur

Agency description:

The Division of Employment and Rehabilitation Services, Rehabilitation Services Administration, concurs with the finding.

The Administration did not have adequate internal control procedures in place for the RSA-2 Program Cost Report for the year ended Federal Fiscal Year 2005. The Administration identified that procedures need to be developed to complete the RSA-2 Program Cost Report accurately. The Administration is in the process of developing procedures that will be in place by December 1, 2007. In addition, the Administration will submit a draft to the DES Financial Services Administration for final review.

Contact person: Kathy Levandowsky
(602) 542-3332

Agency: Department of Economic Security

CFDA No.: 96.001 Social Security – Disability Insurance,
#s 010504AZD100 and 010604AZD100

State of Arizona
Corrective Action Plan
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

Finding No.: 06-116

Status: Concur

Agency description:

The Department of Economic Security, Division of Benefits and Medical Eligibility, concurs with this finding. The Disability Determination Service Administration adjudicates disability claims for the Social Security Administration. The case files that are processed, along with all pertinent reports, are the property of the Social Security Administration. The Administration does not keep records or files. If the case was processed electronically, the Administration is able to produce requested reports. However, most of the information requested by the auditors was processed in the paper environment. If there were additional time, the Administration would have been able to produce the reports by requesting them from the Social Security Administration.

The Administration is developing a standard invoice for all consultative examination vendors to use when requesting payment for examinations. The invoice will include the name of the claimant, case number, examination type, examination date, cost, and a statement that will hold the vendor responsible to submit the invoice only when all services have been completed including the signed report. This will be effective July 2007.

Contact person: Nancy West
(602) 264-2644 ext. 2205

State of Arizona
Corrective Action Plan
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

Finding No.: 06-116

Status: Concur

Agency description:

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Contact person: Nancy West
(602) 264-2644 ext. 2205

Agency: Department of Economic Security

CFDA No.: 96.001 Social Security – Disability Insurance.
#s 010504AZD100 and 010604AZD100

Finding No.: 06-117

Status: Concur

Agency description:

The Department of Economic Security, Division of Benefits and Medical Eligibility, concurs with this finding. The agreements with the doctors utilized an outdated format. The Division is working with the Office of Procurement to draft new agreements in accordance with the procurement code by September 30, 2007.

State of Arizona
Corrective Action Plan
Year Ended June 30, 2006

Federal Award Findings and Questioned Costs

The amount paid for imaging services was paid to vendors who contract with hospitals, doctors, labs, and other healthcare providers to provide medical records storage. In order to obtain the required medical records for applicants, the Division must request the records from the vendor on contract with the medical provider. It is not practical to compete for these services. Therefore, the Office of Procurement approved a Competition Impractical in May 2007.

Contact person: Nancy West
(602) 264-2644 ext. 2205

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Resource Management (ORM). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises 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 and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity 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 OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG 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. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Resource Management

ORM supports OIG by providing information resource management and systems security. ORM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, ORM is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.