
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ARIZONA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

May 2010 A-77-10-00007

**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: May 14, 2010

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, 2008 (A-77-10-00007)

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, 2008. 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. 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 Arizona Auditor General 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 Inspections*.

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

The single audit reported that the Arizona DDS did not:

- Have adequate internal control policies and procedures in place to ensure the *Time Report of Personnel Services for DDSs* (Form SSA-4514) was accurate. The corrective action plan indicated the DDS implemented a new electronic process to complete the SSA-4514 (Attachment A, Page 1).
- Follow internal control policies and procedures to ensure expenditures were charged to the correct fiscal year and paid in the correct amounts. The corrective action plan indicated the DDS corrected the expenditures incorrectly charged to the wrong fiscal year and corrected the expenditures that were under or overpaid (Attachment A, Page 2).

We recommend that SSA:

1. Verify that the DDS implemented internal control procedures to ensure the accuracy of the SSA-4514.
2. Ensure DDS has adequate internal control procedures in place to ensure expenditures are charged to the correct fiscal year and paid in the correct amounts.

The single audit also disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. I am bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

- The State of Arizona did not have procedures in place to monitor internal controls at commercial servicing banks used to process the State's cash receipts (Attachment B, Page 1).
- DES did not accurately record financial transactions in its accounting records (Attachment B, Page 1).
- The State of Arizona charged unallowable costs to federal programs for general agency counsel services provided by the Office of the Attorney General (Attachment B, Page 2).

Please send a copy of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (816) 221-0315, extension 1537.



Patrick P. O'Carroll, Jr.

Attachments

State of Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

08-113

Disability Insurance/SSI Cluster:

CFDA No.: 96.001 **Social Security—Disability Insurance, #s 040704AZDI00 and 040804AZDI00**

Social Security Administration

Award Period: October 1, 2006 through September 30, 2007

October 1, 2007 through September 30, 2008

Reporting

Questioned Cost: N/A

The Department of Economic Security, Disability Determination Services Administration, did not have adequate internal control policies and procedures to ensure its SSA-4514 Time Report of Personnel Services for Disability Determination Services was accurately prepared. Specifically, auditors noted the activity hours reported on the SSA-4514 report for the quarter ended September 30, 2007, did not agree to the timesheets for 7 of 20 employees tested. These errors resulted in an overstatement of 46.5 supporting hours worked and an understatement of 32 leave hours taken. Further, the Administration had an error in the formula used to calculate its full-time personnel administrative hours resulting in an overstatement of 319 hours for the fiscal year.

This finding did not result in a questioned cost since the SSA-4514 report was not used to request reimbursement of federal expenditures. This finding is a significant deficiency in internal control over compliance and noncompliance with the cluster's reporting requirements. This finding is similar to a prior year finding.

To comply with the Social Security Administration's Program Operations Manual System policy instructions §DI 39506.231, the Administration should:

- Establish a review process to ensure supporting data is accurately accumulated.
- Correct the formula error used to report personnel administrative hours.
- Assign a supervisor to review all reports for accuracy before the reports are submitted to the Social Security Administration.

Agency Response: Concur

Agency Corrective Action Plan: The Department of Economic Security, Disability Determination Services Administration (DDSA), implemented a new process to complete the Time Report of Personnel Services for Disability Determination Services (SSA-4514). DDSA completes the SSA-4514 report by downloading the required data (employee hours) from the Division of Business and Finance data warehouse directly into the report. In the past, DDSA manually entered the timesheet information into the report. The downloading process ensures that the SSA-4514 report accurately reflects the employee hours entered on the timesheets and the process is less time-consuming. DDSA implemented the new process in September 2008.

State of Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

08-114

Disability Insurance/SSI Cluster:

CFDA No.: 96.001 Social Security—Disability Insurance, #s 040704AZDI00 and 040804AZDI00

Social Security Administration

Award Period: October 1, 2006 through September 30, 2007

October 1, 2007 through September 30, 2008

Allowable Costs/Cost Principles and Reporting

Questioned Cost: \$407

The Department of Economic Security, Disability Determination Services Administration, did not always follow its internal control policies and procedures to ensure that all program costs were charged to the correct fiscal year and reported accurately on the SSA-4513 State Agency Report of Obligations for SSA Disability Programs Report. Although the SSA-4513 report was not used to request reimbursement of federal expenditures, auditors noted that for 2 of 60 expenditures tested, \$3,880 was charged to and reported as expenditures for the incorrect award period. Specifically, \$92 of grant year 2007 expenditures, \$1,577 of grant year 2006 expenditures, \$1,830 of grant year 2005 expenditures, and \$381 of grant year 2004 expenditures were charged to and reported as fiscal year 2008 expenditures. Since the 2004 grant award had been previously closed and there were no remaining grant monies, this resulted in a questioned cost. Further, for 5 of 60 expenditures tested, the Administration paid the wrong amount. Auditors noted that the Administration paid \$34 less than it should have for 3 expenditures and paid \$26 more than it should have for 2 expenditures.

It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding is a material weakness in internal control over compliance and noncompliance with the program's allowable costs/cost principles and reporting requirements.

To comply with the Social Security Administration's Program Operations Manual System policy instructions, §§DI 39506.200 and 39506.202, the Administration should monitor compliance with its policies and procedures to help ensure all expenditures are charged to the appropriate grant year and are accurately reported. In addition, the Administration should establish a review process to detect errors between the supporting documentation and the amount paid, and ensure that the proper fee schedule rate is used.

Agency Response: Concur

Agency Corrective Action Plan: The Department of Economic Security, Disability Determination Services Administration, completed expenditure corrections for all expenditures incorrectly charged to and reported as fiscal year 2008 grant expenditures. In addition, DDSA advised all Fiscal staff of correct procedures for paying bills from different fiscal years. Further, vendors will be reminded to submit bills within contractual time frames so that all bills can be paid prior to the grants being closed.

For the transactions that were underpaid or overpaid (amounts ranged from \$3 to \$20 due to manual input errors or unreadable fax transmissions), all corrections have been made or paid. The system's database had not been updated with current fee schedule information and this resulted in the transactions not being paid in accordance with the State's fee schedule. DDSA returned to the practice of updating the system annually when the changes are received.

State of Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

08-09

The State should verify that servicing banks have effective internal controls

Various state agencies have contracted with commercial banks to process the State's cash receipts. This includes using a servicing bank to collect and process taxes, fees, fines, and various other state agency cash receipts, as well as maintaining operating accounts used to deposit tuition and fees, federal monies, and other receipts. These receipts are in the form of cash payments, wire transfers, and credit card receipts. Therefore, as these banks collect, process, and transmit confidential and sensitive financial information, it is imperative that they have effective systems of internal controls for processing, recording, and reporting these receipts to the various state agencies. However, the State did not have procedures in place to monitor internal controls at the servicing banks to ensure that the banks' controls were operating effectively. Further, the contracts with the servicing banks did not always require the banks to obtain an assurance review performed by an independent third party to help ensure controls at the banks are sufficient to protect the integrity of the State's financial information. As a result, assurance reviews were not performed annually for all of the State's servicing banks.

To help ensure services provided by the State's servicing banks are in accordance with contract provisions and that the servicing banks have an effective system of internal control for processing financial transactions of the State and its agencies, the State should establish and follow the policies and procedures listed below:

- Ensure that servicing bank contracts include all services to be provided.
- Verify that the servicing banks have effective internal control systems to accurately process and record the State's financial transactions and safeguard confidential and sensitive financial information. To help determine whether controls have been placed in operation and are operating effectively, the State should establish contractual provisions requiring the State's servicing banks to have their internal control systems that process and record the State's financial transactions audited annually. In addition, assign a state agency to review these audit reports and require a corrective action plan if deficiencies are noted.
- Monitor all other contractual provisions for compliance.
- Ensure that state agencies have effective controls in place to validate the accuracy of transactions processed by the servicing banks.

A similar recommendation was provided to the State in the prior year.

08-28

The Department of Economic Security should ensure the accuracy of its accounting records

The Department of Economic Security is responsible for the preparation of its financial statement information for inclusion in the State's Comprehensive Annual Financial Report. To achieve this objective, the Department should ensure that it accurately records financial transactions in its accounting records. However, this was not always accomplished since the Department incorrectly accrued \$608,000 of fiscal year 2009 grant revenues in the general fund at June 30, 2008. This resulted in an overstatement of receivables and revenues. The Department adjusted its accounting records for all significant errors.

To help ensure that the Department has effective internal controls to properly account for and report financial information, the Department should require a supervisor to review and approve all year-end accruals.

State of Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2008

Federal Award Findings and Questioned Costs

08-101

Allowable Costs/Cost Principles

Questioned Cost: \$500,995

The State of Arizona did not comply with the allowable costs/cost principles requirements with respect to general agency counsel service costs provided by the Office of the Attorney General that were charged to federal programs administered by various state agencies. A.R.S. §41-191.09 created the Attorney General Legal Services Cost Allocation Fund (Fund) for the purpose of reimbursing the Attorney General's Department of Law for general agency counsel services. Beginning on July 1, 2006, all state agency funds, except those specifically exempted by the statute, were required to reimburse the Fund for the costs of general agency counsel services. Reimbursements were obtained by charging 0.675 percent of each applicable agency's total payroll expenditures, including those paid with federal monies, each pay period. These charges were not allowable according to OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, paragraphs C.1.b and 3.a., because the costs were not charged to the agencies based on the relative benefits received. During fiscal year 2008, these charges totaled \$500,995, including \$121,554 for the major programs listed above and \$379,441 for all other federal programs.

This finding is noncompliance with the allowable costs/cost principles requirements, and could potentially impact all federal programs administered by the affected state agencies that incurred payroll costs. However, this finding was not considered to be caused by the federal programs' administration since the noncompliance resulted from a statutory requirement that these programs be charged for general agency counsel service costs. This finding is similar to a prior year finding.

To comply with OMB Circular A-87, the State should ensure that general agency counsel services are not charged to federal programs unless treated as direct costs or allocated using an equitable allocation basis, such as each agency's direct usage of counsel services. In addition, the Department of Administration should monitor bills being considered in the Arizona State Legislature to help ensure that unallowable costs to federal programs will not be incurred in the future if the bill is enacted into law.

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.