
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ARIZONA
FOR THE FISCAL YEAR ENDED
JUNE 30, 2003**

November 2004

A-77-05-00001

**MANAGEMENT
ADVISORY REPORT**



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the 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

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.



SOCIAL SECURITY

MEMORANDUM

Date: November 16, 2004

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the State of Arizona for the Fiscal Year Ended June 30, 2003 (A-77-05-00001)

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, 2003. 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 Department of Health and Human Services (HHS) desk review 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.

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 (DES) is the Arizona DDS' parent agency.

The single audit reported that internal controls over payments for services were not followed. Specifically, (1) documentation was not maintained to support payments to five doctors totaling \$4,744, (2) a vendor was underpaid for transportation service, and (3) an incorrect warrant was not properly cancelled and then reissued for the correct amount. The corrective action plan indicated that DES will enforce established procedures for payment, including matching invoices to payment vouchers and voiding incorrect warrants (Attachment A, pages 1 through 3).

In addition, the single audit reported that eight medical consultants, contracted by DES to review medical files, petitioned the Internal Revenue Service (IRS) for a determination of their employment status with DES for Federal employment tax purposes. In Fiscal Year (FY) 2001, the IRS determined that the medical consultants should have been paid as employees rather than contractors and DES was responsible for paying employer's taxes retroactive to 1997, which may include interest and penalties.¹ As of FY 2004, DES had not reimbursed the IRS for the employer's taxes.

The corrective action plan indicated that DES is working with the Arizona Attorney General's Office to resolve this issue (Attachment A, pages 2 through 4). During our review of the single audit we contacted DES to determine the status of this finding. DES indicated that they are currently working on solicitations for new contracts. Contract agreements will be modified to ensure the language in the contract supports independent contractor status.

We recommend that SSA:

1. Remind the DDS to maintain adequate documentation to support all expenditures.
2. Determine if the \$4,744 paid to doctors was for valid services and instruct the DDS to return any unallowable costs.
3. Ensure contract language supports the status of medical consultants as independent contractors.

¹ If the IRS assesses interest and penalties to DES, SSA should ensure any interest or penalties are not charged to its program. Office of Management and Budget Circular A-87, "Cost Principles for State, Local and Indian Tribal Governments" states that fines, penalties, and other settlements resulting from violations (or alleged violations) of Federal laws and regulations are unallowable except when incurred as a result of compliance with specific provisions of the Federal award or written instructions by the awarding agency authorizing in advance such payments.

Page 3 – Candace Skurnik

Please send copies of the final Audit Clearance Document to Shannon Agee and Rona Rustigian. If you have questions contact Shannon Agee at (816) 936-5590.

A handwritten signature in black ink, appearing to read "Steven L. Schaeffer". The signature is written in a cursive style with a large initial "S".

Steven L. Schaeffer

Attachments

State of Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

To comply with 7 CFR §274.4, the Department should reconcile all authorized issuances generated from its eligibility computer system to the confirmed amounts received from the contracted EBT company; identify and correct reconciling differences; and properly report the issuances on the FNS-46 Issuance Reconciliation Report. Further, the Department should include reconciling differences; improper issuance transactions; and losses related to noncompliance with Food Nutrition Services directives on the FNS-46 Report.

03-104

CFDA No.: 10.551 Food Stamps

U.S. Department of Agriculture

Award Period: July 1, 2002 through June 30, 2003

Questioned Cost: \$172

The Department of Economic Security, Division of Benefits and Medical Eligibility did not have adequate internal control policies and procedures to ensure that changes made throughout the year to recipients' cash assistance benefits were consistently recorded within the recipients' case files in its eligibility computer system. For example, if a change occurred in a recipient's cash assistance benefit, an eligibility intake worker was required to manually update this information in the food stamp case file. We noted for 2 of 32 recipients that cash assistance benefits changes were not reflected in the food stamp calculation. As a result, one recipient was overpaid \$172 in food stamp benefits, and the overpayment was not referred to the Department's Collections Office.

It was not practical to extend our auditing procedures to determine any additional questioned costs, if any, that may have resulted from this finding. We performed sufficient test work and determined that the Department materially complied with the Food Stamps program's special tests and provisions requirements. This finding is a material internal control weakness and immaterial noncompliance with the program's special tests and provisions requirements.

To comply with 7 CFR §272.10(b)(1), the Department should establish adequate internal control policies and procedures to authorize and issue food stamps benefits. Specifically, the Department should generate exception reports, link the food stamps calculation table to the cash assistance benefits award table, or create an edit check to notify employees when food stamp benefit calculations need to be updated.

03-105

CFDA No.: 96.001 Social Security—Disability Insurance, #010204AZD100 and #010304AZD100

Social Security Administration

Award Period: October 1, 2001 through September 30, 2002 and
October 1, 2002 through September 30, 2003

Questioned Cost: \$4,744

The Department of Economic Security, Disability Determination Services Administration (DDSA) did not adequately enforce its internal control policies and procedures to ensure compliance with the program's activities allowed or unallowed and allowable costs and cost principles requirements. Specifically, the

State of Arizona
Schedule of Findings and Questioned Costs
Year Ended June 30, 2003

DDSA paid five doctors' \$4,744 for services provided without adequate supporting documentation such as a written contract or vendor invoice and underpaid a vendor for a transportation service. In addition, the DDSA did not void a warrant issued for an incorrect amount for a doctor's service. Instead, the DDSA overpaid the doctor with the incorrect amount, maintained an informal record of the difference, and deducted it from a subsequent payment. It was not practical to extend our auditing procedures sufficiently to determine additional questioned costs, if any, that may have resulted from this finding.

This finding is considered a material internal control weakness. However, we performed additional test work and determined that the DDSA materially complied with the program's activities allowed or unallowed and allowable costs and cost principles requirements for fiscal year 2003.

To comply with 42 CFR §434.6 and OMB Circular A-87—Cost Principles for State, Local, and Indian Tribal Governments, §C(1)(j), the DDSA should enforce its internal control policies and procedures to ensure that all its expenditures are supported by a contract or vendor invoice.

03-106

CFDA No.: 96.001 Social Security—Disability Insurance, #010204AZD100 and #010304AZD100

Social Security Administration

Award Period: October 1, 2001 through September 30, 2002 and

October 1, 2002 through September 30, 2003

Questioned Cost: N/A

The Department of Economic Security, Disability Determination Service Administration contracted with 53 doctors to review applicants' medical files and perform eligibility determination for social security disability benefits. These doctors attended the Department's in-house training classes and performed their contracted duties at the Department. Over the last 3 years, eight doctors petitioned the Internal Revenue Service (IRS) requesting a determination of their employment status with the Department for federal employment tax purposes. In December 2000, the IRS ruled that their employment status should be that of an employee and not of an independent contractor. The IRS also requested the Department to pay employer's taxes on these contracted doctors retroactive to calendar year 1997. In April 2001, the Department submitted additional information to the IRS supporting its determination that the doctors should be classified as contractors. However, in May 2001, the IRS reaffirmed its opinion that the doctors should be classified as employees. The Department has not had any further contact with the IRS as of February 2004.

This finding is a reportable condition and immaterial noncompliance with the program's activities allowed or unallowed and allowable costs and cost principles requirements.

To help ensure compliance with 26 U.S. Code §3121(d)-1 and 26 §31.3401(c)-1, the Department should contact the IRS to resolve this matter as soon as possible before additional penalties and interest are assessed onto prior years' unpaid employer social security and Medicare taxes.

State of Arizona
Corrective Action Plan
Year Ended June 30, 2003

Federal Award Findings and Questioned Costs

Agency: Department of Economic Security

CFDA No.: 96.001 Social Security—Disability Insurance

Finding No.: 03-105

Status: Concur

Agency description:

To help ensure that payments to doctors who travel and provide special services are properly supported by a contract price or vendor invoice, the Department of Economic Security, Disability Determination Service Administration (DDSA) will add an Addendum to the Consultative Examiners Service Agreements that delineates the amount to be paid for examinations, mileage, lodging, and rent (if applicable). This Addendum will be effective May 2004.

To help ensure that vendors are paid correctly, DDSA consistently will enforce its established procedures for payments, which include:

- approval of vendor invoices;
- segregation of the responsibilities for preparation and approval of payment vouchers;
- matching of invoices to payment vouchers; and
- properly voiding warrants with incorrect amounts.

In addition, to correct the \$25 underpayment to a vendor for a transportation service, DDSA will process a payment to the vendor by May 2004.

Contact person: Nancy West
Site Code 938D
1789 West Jefferson
Phoenix, Arizona 85007
Phone: (602) 264-2644

Agency: Department of Economic Security

CFDA No.: 96.001 Social Security—Disability Insurance

Finding No.: 03-106

Status: Not Concur

State of Arizona
Corrective Action Plan
Year Ended June 30, 2003

Federal Award Findings and Questioned Costs

Agency description:

The Department of Economic Security (Department), Disability Determination Service Administration is working with the Procurement Administrator and the Arizona Attorney General's Office to determine the appropriate course of action to resolve the issue with the Internal Revenue Service (IRS) regarding classification of its medical consultants as employees. The IRS has not audited any of the Department's records that pertain to this matter and has not issued a formal determination.

To clarify the relationship of the medical consultants as subcontractors or independent contractors, the Department is currently in the process of modifying its contract agreements to ensure the language in the contract supports independent contractor status by:

- developing a revised scope of work;
- clarifying the role of the contractor and "who controls the details" of the work; and
- ensuring that the contract language describing the work provided and under what conditions the work is performed supports that medical consultants are not employees of the State.

The current contracts expire in September 2004. The new contracts will include the revised scope of work and provide more flexibility for contractors.

Contact person: Nancy West
Site Code 938D
1789 West Jefferson
Phoenix, Arizona 85007
Phone: (602) 264-2644

Agency: Department of Economic Security

CFDA No.: 17.245 Trade Adjustment Assistance—Workers

Finding No.: 03-107

Status: Not Concur

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 Executive Operations (OEO). 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 Executive Operations

OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO 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.