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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**SINGLE AUDIT OF THE  
STATE OF ARIZONA  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2010**

**February 2012**

**A-77-12-00004**

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**MANAGEMENT  
ADVISORY REPORT**

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## 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: February 16, 2012

Refer To:

To: Frances Cord  
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, 2010 (A-77-12-00004)

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, 2010. 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 Inspection and Evaluation*.

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 (AZ-DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The AZ-DDS is reimbursed for 100 percent of allowable costs. The Department of Economic Security (DES) is the AZ-DDS' parent agency.

The single audit reported:

- DES incorrectly allocated capital expenditures of \$19,967 to various Federal programs, including SSA, as an indirect cost (Attachment A, Pages 1 and 2). The corrective action plan indicates DES implemented controls that prevent capital

assets from being charged as an indirect cost and corrected the overcharge to Federal programs through an expenditure adjustment (Attachment A, Page 3).

- AZ-DDS overpaid its telecommunications vendor approximately \$191,709 from October 2000 through August 2010 (Attachment A, Pages 3 and 4).<sup>1</sup> The corrective action plan indicates the AZ-DDS will conduct quarterly reviews of billings to ensure vendors are charging the appropriate amounts and is attempting to recoup the overpayment from the vendor (Attachment A, Page 4).
- AZ-DDS did not maintain documentation of its determination that vendors have not been suspended or debarred from doing business with the Federal Government. The corrective action plan indicates AZ-DDS will print verification that the vendor has not been suspended or debarred from doing business with the Federal Government and retain documentation in the contract file (Attachment A, Page 4).

We recommend that SSA:

1. Verify it received reimbursement for the unallowable indirect costs allocated to the DI program.
2. Ensure AZ-DDS puts adequate procedures in place for reviewing vendor invoices.
3. Request a refund of \$191,709 for the unallowable telecommunication expenses charged to the DI program from October 2000 through August 2010.
4. Verify that AZ-DDS maintains appropriate suspension and debarment documentation.

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (877) 405-7694, extension 18802.



Patrick P. O'Carroll, Jr.

Attachments

cc:  
Lynn Bernstein

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<sup>1</sup> The single audit reported the estimated overpayment was \$1,611 per month for the DI program from October 2000 through August 2010, which totals \$191,709.

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**SNAP Cluster:**

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Number: 7AZ400AZ4

**U.S. Department of Agriculture**

**WIA Cluster:**

CFDA No.: 17.258 **WIA Adult Program**

17.258 **ARRA—WIA Adult Program**

17.259 **WIA Youth Activities**

17.259 **ARRA—WIA Youth Activities**

17.260 **WIA Dislocated Workers**

17.260 **ARRA—WIA Dislocated Workers**

Award Period: April 1, 2007 through June 30, 2010

April 1, 2008 through June 30, 2011

April 1, 2009 through June 30, 2012

Award Numbers: AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55

CFDA No.: 17.225 **Unemployment Insurance**

17.225 **ARRA—Unemployment Insurance**

Award Period: October 1, 2007 through September 30, 2010

October 1, 2008 through September 30, 2011

October 1, 2009 through September 30, 2012

Award Numbers: UI-16733-08-55, UI-18007-09-55, and UI-19569-10-55

**U.S. Department of Labor**

**Vocational Rehabilitation Cluster:**

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States**

84.390 **Rehabilitation Services—Vocational Rehabilitation Grants to States, Recovery Act**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: H126A8000208, H126A9000209, H126A1000210, and H390A090002

**U.S. Department of Education**

**TANF Cluster:**

CFDA No.: 93.558 **Temporary Assistance for Needy Families**

93.716 **ARRA—Temporary Assistance for Needy Families (TANF) Supplemental Grants**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G0802AZTANF, G0902AZTANF, and G1001AZTANF

**CSBG Cluster:**

CFDA No.: 93.569 **Community Services Block Grant**

93.710 **ARRA—Community Services Block Grant**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G-08B1AZCOSR, G-09B1AZCOSR, G-0901AZCOS2, and G-10B1AZCOSR

CFDA No.: 93.563 **Child Support Enforcement**

93.563 **ARRA—Child Support Enforcement**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: G0804AZ4004, G0904AZ4004, G1004AZ4004, G0904AZ4002, and G1004AZ4002

CFDA No.: 93.658 **Foster Care—Title IV-E**

93.658 **ARRA—Foster Care—Title IV-E**

Award Period: October 1, 2007 through September 30, 2008

October 1, 2008 through September 30, 2009

January 1, 2009 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 0801AZ1401, 0901AZ1401, 0901AZ1402, 1001AZ1401, and 1001AZ1402

**U.S. Department of Health and Human Services**

**Disability Insurance/SSI Cluster:**

CFDA No.: 96.001 **Social Security—Disability Insurance**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 010904AZD100 and 011004AZD100

**Social Security Administration**

Allowable Costs/Cost Principles

Questioned Cost: \$19,967

Criteria: In accordance with 2 CFR §225, Appendix B, 15.b.(5), equipment and other capital expenditures are unallowable as indirect costs; however, they are allowable only through depreciation or use allowances.

Condition and context: The Department of Economic Security allocated capital expenditures to federal programs. Specifically, auditors scanned the Department's financial records and noted that the Department charged two capital assets totaling \$19,967 to an indirect cost pool that was subsequently allocated to various federal programs.

Effect: Allocating capital expenditures to indirect cost pools can result in unallowable costs, duplication of costs if depreciation is also charged, and noncompliance with cost principles. During fiscal year 2010, auditors determined that known charges totaled \$19,967, divided among \$16,894 for the major programs listed above and \$3,073 for nonmajor federal programs. It was not practical to extend our auditing procedures sufficiently to determine whether any additional questioned costs resulted from this finding. This finding results in noncompliance with allowable costs/cost principles requirements for the programs listed above.

Cause: The Department inadvertently charged two capital equipment items to a cost allocation pool that was subsequently allocated to federal programs.

Recommendation: The Department should ensure that the purchase costs of capital equipment items are not allocated to federal programs when purchased, but rather allocated through depreciation expense or use allowances over their useful lives.

This finding is similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: In February 2011, to ensure that the purchase costs of capital equipment items are not allocated to federal programs when purchased, the Department of Economic Security (DES) implemented Financial Management and Control System (FMCS) edits that prevent capital assets from being charged to indirect pools. On February 18, 2011, the DES Financial Services Administration completed the final expenditure correction that removed the charge of the capital assets from the indirect cost pool.

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**Medicaid Cluster:**

CFDA No.: 93.775 **State Medicaid Fraud Control Units**

93.777 **State Survey and Certification of Health Care Providers and Suppliers (Title XVIII)**

**Medicare**

93.778 **Medical Assistance Program**

93.778 **ARRA—Medical Assistance Program**

Award Period: October 27, 2006 through September 30, 2011

Award Numbers: 11-W-0032/09

**U.S. Department of Health and Human Services**

**Disability Insurance/SSI Cluster:**

CFDA No.: 96.001 **Social Security—Disability Insurance**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 010904AZD100 and 011004AZD100

**Social Security Administration**

Activities Allowed or Unallowed and Allowable Costs/Cost Principles

Questioned Cost: Unknown

Criteria: In accordance with 2 CFR §225, Appendix A(C)(1)(a), to be allowable under federal awards, costs must be necessary and reasonable for proper and efficient performance and administration of federal awards.

Condition and context: The Department of Economic Security, Disability Determination Services Administration (Administration), identified overpayments made to its telecommunications contractor during a review of the number of phone lines it needs. The Administration upgraded its telecommunications lines from analog to digital in October 2000. Since the upgrade, the Administration was unaware it was paying charges for both the analog and digital lines. The Administration maintained that the analog lines should have been disconnected when the lines were upgraded. The Administration is in contact with the federal grantor as well as the telecommunications contractor regarding a resolution to the overpayments. Telecommunications expenditures were allocated to the Administration monthly based on the number of telecommunications lines used. From October 2000 through August 2010, the estimated monthly overpayment was \$1,611 for the Social Security—Disability Insurance program and \$21 for the Medical Assistance Program.

Effect: The estimated overpayments totaled \$19,601 during fiscal year 2010, and \$194,379 for the period October 2000 through August 2010. It was not practical to extend our auditing procedures sufficiently to determine the questioned cost that resulted from this finding. This finding is a significant deficiency in internal control over compliance and noncompliance with the clusters' activities allowed or unallowed and allowable costs/cost principles requirements.

Cause: A detailed review of vendor invoices and actual services provided was not completed following the upgrade, and subsequent analysis of the Administration's charges did not identify the overpayment since billing amounts have remained the same.

Recommendation: The Administration should develop a process that allows for a detailed review of telecommunications charges after upgrades, changes in the service plan, or facility relocation. Further, the Administration should review vendor invoices to help ensure that costs incurred are necessary and reasonable for proper and efficient performance and administration of federal programs.

Agency Response: Concur

Agency Corrective Action Plan: To ensure that costs incurred are necessary and reasonable for proper and efficient performance and administration of federal programs, the Disability Determination Services Administration (DDSA) will review billings whenever a change occurs to ensure the appropriate changes are made on the billing document. The DDSA will also conduct quarterly reviews of billings to ensure vendors are charging the appropriate amount to the Division. In addition, the Department is working with the DES Office of Procurement and the vendor to recoup the overpayments.

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**Disability Insurance/SSI Cluster:**

CFDA No.: 96.001 **Social Security—Disability Insurance**

Award Period: October 1, 2008 through September 30, 2009

October 1, 2009 through September 30, 2010

Award Numbers: 010904AZD100 and 011004AZD100

**Social Security Administration**

Suspension and Debarment

Questioned Cost: None

Criteria: In accordance with 2 CFR §§180.220 and 180.300, the Department of Economic Security must verify that vendors are not suspended or debarred before making purchases exceeding \$25,000 that will be paid with federal monies.

Condition and context: The Department of Economic Security, Disability Determination Service Administration (Administration), indicated it had verified that each vendor had not been suspended or debarred from doing business with the federal government; however, it did not retain documentation of its verification. Auditors performed additional audit procedures and noted no instances of payments made to suspended or debarred vendors.

Effect: Payments could be made to suspended or debarred vendors. This finding is a significant deficiency in internal control over compliance with the Cluster's suspension and debarment compliance requirements.

Cause: The Administration did not realize they needed to retain documentation of the verification process and, therefore, it did not establish policies and procedures for doing so.

Recommendation: The Administration should document its determination that vendors being paid over \$25,000 in federal monies have not been suspended or debarred from doing business with governmental entities. This verification may be accomplished by checking the Excluded Parties List System, obtaining a certification from the vendor, or adding a clause or condition to the contract.

Agency Response: Concur

Agency Corrective Action Plan: To ensure vendors are not suspended or debarred, the DDSA will print the verification that the vendor has not been suspended or debarred from doing business with the federal government and retain it in the contract file.

## **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.