
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF ARIZONA
FOR THE FISCAL YEAR
ENDED JUNE 30, 2009**

December 2010

A-77-11-00007

**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: December 20, 2010

Refer To:

To: Rebecca Tothero
Acting 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, 2009 (A-77-11-00007)

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, 2009. 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 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 DDS' parent agency.

The single audit reported that the DES inappropriately allocated a capital expenditure of \$8,820 to various Federal programs as an indirect cost (Attachment A, Pages 1 and 2). The corrective action plan indicated the capital expenditure was removed from the indirect costs allocation and additional policies and procedures were implemented to

ensure capital equipment is not charged as indirect costs (Attachment A, Pages 2). We recommend that SSA verify that the portion of the \$8,820 allocated to the DDS was returned.

The single audit also 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 DDS* (Form SSA-4514) and the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) were accurate (Attachment A, Pages 3 and 4). We made a recommendation to SSA in a prior report for corrective action on this finding.¹ We confirmed that SSA had taken appropriate corrective actions to address this finding. Therefore, we will not repeat the recommendation in this report.

In addition, the single audit disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. We are bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency. Specifically, the State of Arizona

- did not submit the single audit report to the Federal Audit clearinghouse timely (Attachment B, Page 1), and
- charged unallowable costs to Federal programs for general agency counsel services provided by the Office of the Attorney General (Attachment B, Pages 2 through 4).

Please send copies 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

¹ SSA OIG, Management Advisory Report, *Single Audit of the State of Arizona for the Fiscal Year Ended June 30, 2008* (A-77-10-00007), May 2010.

09-120

SNAP Cluster:

CFDA No.: 10.551 **Supplemental Nutrition Assistance Program, # 7AZ400AZ4**

10.561 **State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, # 7AZ400AZ4**

10.561 **ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, # 7AZ400AZ4**

U.S. Department of Agriculture

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

October 1, 2008 through September 30, 2009

CFDA No.: 17.225 **Unemployment Insurance, #s UI-15108-06-55, UI-15785-07-55, UI-16733-08-55, and UI-18007-09-55**

17.225 **ARRA—Unemployment Insurance, # UI-18007-09-55**

U.S. Department of Labor

Award Period: October 1, 2005 through September 30, 2008

October 1, 2006 through September 30, 2009

October 1, 2007 through September 30, 2010

October 1, 2008 through September 30, 2011

Vocational Rehabilitation Cluster:

CFDA No.: 84.126 **Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A070002, H126A080002, and H126A090002**

U.S. Department of Education

Award Period: October 1, 2006 through September 30, 2008

October 1, 2007 through September 30, 2009

October 1, 2008 through September 30, 2010

TANF Cluster:

CFDA No.: 93.558 **Temporary Assistance for Needy Families, #s G0802AZTANF and G0902AZTANF**

CCDF Cluster:

CFDA No.: 93.575 **Child Care and Development Block Grant, #s G0801AZCCDF and G0901AZCCDF**

93.596 **Child Care Mandatory and Matching Funds of the Child Care and Development Fund, #s G0801AZCCDF and G0901AZCCDF**

93.713 **ARRA—Child Care and Development Block Grant, # G0901AZCCDF7**

U.S. Department of Health and Human Services

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

October 1, 2008 through September 30, 2009

October 1, 2008 through September 30, 2010

Disability Insurance/SSI Cluster:

CFDA No.: 96.001 **Social Security—Disability Insurance, #s 040804AZD100 and 040904AZD100**

Social Security Administration

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

October 1, 2008 through September 30, 2009

Allowable Costs/Cost Principles

Questioned Cost: \$8,820

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 a capital expenditure to federal programs. Specifically, auditors noted that for 1 of 55 expenditures tested, the Department charged \$8,820 for a vehicle to its modified direct total 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. It was not practical to extend our auditing procedures sufficiently to determine the amounts of questioned costs for each program affected or 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 a capital equipment item 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.

Agency Response: Concur

Agency Corrective Action Plan: The Department of Economic Security is implementing additional policies and procedures that ensure capital equipment is not charged to indirect cost pools. Non-Leased Capital equipment purchases where the benefiting federal program(s) cannot be readily identified will be paid for with non-federal funds and allocated through depreciation over the useful life of the asset to the benefiting federal programs.

The Financial Services Administration (FSA) completed an expenditure correction that removed the charge of the identified vehicle from the indirect cost pool.

09-119

Disability Insurance/SSI Cluster:

CFDA No.: 96.001 **Social Security—Disability Insurance, #'s 040804AZD100 and 040904AZD100**

Social Security Administration

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

October 1, 2008 through September 30, 2009

Reporting

Questioned Cost: N/A

Criteria: The Social Security Administration's (SSA) Program Operations Manual System policy instructions, §§DI 39506.231 and DI 39506.210 should be followed to report the hours worked by staffing category and employment status, such as full-time, part-time, or temporary, accurately on the quarterly Time Report of Personnel Service for Disability Determination Services (SSA-4514) reports and to report cumulative obligations by line item for the fiscal year accurately on the quarterly State Agency Report of Obligations for SSA Disability Programs (SSA-4513) reports.

Condition and context: The Department of Economic Security, Disability Determination Services Administration, did not have adequate internal control policies and procedures to ensure its SSA-4514 reports were accurately prepared. Specifically, auditors noted the activity hours reported on the March 31, 2009, SSA-4514 report did not agree to the time sheets for 7 of 20 employees tested. These errors resulted in an overstatement of 48.5 supporting hours worked and an understatement of 5.5 leave hours taken. This also resulted in an overstatement of 54.3 total hours worked and total duty hours reported on the report's accompanying supporting schedule. In addition, the Administration did not properly calculate the amount of SSA leave hours taken since it used an incorrect percentage to apply the non-SSA leave hours in the supporting schedules which resulted in an understatement of 49.9 SSA leave hours on the SSA-4514 report. Further, while performing tests over program expenditures, auditors noted 2 consultative examination expenditures were not accurately recorded in the accounting system, resulting in an understatement of \$124 for concurrent supplemental security income/disability insurance claims and an overstatement of \$124 for supplemental security income claims on the March 31, 2009, SSA-4513 report, and an understatement of \$124 of supplemental security income claims and an overstatement of \$124 of disability insurance claims on the June 30, 2009, SSA-4513 report.

Effect: This finding did not result in a questioned cost since the reports were not used to request reimbursement of federal expenditures. This finding is a significant deficiency in internal control over compliance and noncompliance with the program's reporting compliance requirements.

Cause: The Administration did not adequately review or reconcile its federal reports to supporting records. In addition, the Administration did not adequately review the expenditure transactions to ensure that they were recorded properly on its general ledger system used to prepare the SSA-4513 report.

Recommendation: The Administration should establish a review process to help ensure federal reports are accurate before they are submitted to the Social Security Administration. This review should include:

- Reconciling its federal reports to supporting records and schedules.
- Ensuring report information is accurately accumulated and classified.

Further, the Administration should require supervisors to review expenditure transactions to help ensure that they are properly classified in its general ledger system.

This finding was similar to a prior-year finding.

Agency Response: Concur

Agency Corrective Action Plan: To help ensure the Disability Determination Services Administration (DDSA) captures accurate data for the SSA-4514 reports, DDSA now delays the timesheet data download from the Financial Management and Control System (FMCS) data warehouse for three weeks from the date of timesheet data entry. This delay allows for input of amended timesheet data. Also, an additional field is downloaded and used to calculate hours. This calculation acts like a control field and should agree with leave hours and worked hours for each record. As of January 10, 2010, DDSA reconciles entries for each record with timesheets and reviews any special entries for each pay period.

To ensure DDSA uses the correct percentage to calculate the SSA leave hours in the SSA-4514 report, DDSA changed procedures to require verification of the percentage as the first step in the process. In addition, DDSA added flags to the spreadsheet to alert the user to verify the percentage is correct. DDSA corrected the error for the quarter and contacted the Social Security Administration (SSA) regional office to establish that a revised SSA-4514 report was not necessary since the impact of the error was insignificant.

To ensure DDSA fiscal staff members accurately record expenditures in the accounting system, DDSA provided additional training to fiscal staff members regarding data validation and review. Staff members were also given a reference list of the case type codes to use when separating authorizations by case type. In addition, supervisors will randomly review transactions in the future.

09-101
CFDA No.: Not applicable

Questioned Cost: N/A

Criteria: Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320, requires the State to submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end, unless the State's federal oversight agency approves an extension of this deadline.

Condition and context: The federal reporting deadline for the State's Single Audit Reporting Package was March 31, 2010; however, the State did not issue its Single Audit Reporting Package until June 2010. In addition, the State's federal oversight agency, the U.S. Department of Health and Human Services, has not approved an extension for late submission of the 2009 Single Audit Reporting Package.

Effect: The late submission affects all federal programs the State administered. This finding is a material weakness in internal control over compliance and noncompliance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, §.320. However, this finding does not result in a control deficiency in internal control over compliance or noncompliance for the individual federal programs, as this was not caused by the programs' administration.

Cause: As discussed in finding 09-01, the late completion of the State's CAFR contributed to the late submission of its Single Audit Reporting Package.

Recommendation: The State should improve its financial reporting process so that it can submit its Single Audit Reporting Package to the federal clearinghouse no later than 9 months after fiscal year-end.

09-102

SNAP Cluster:

CFDA No.: 10.551 Supplemental Nutrition Assistance Program, #7AZ400AZ4

10.561 State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, #7AZ400AZ4

10.561 ARRA—State Administrative Matching Grants for the Supplemental Nutrition Assistance Program, #7AZ400AZ4

Child Nutrition Cluster:

CFDA No.: 10.553 School Breakfast Program, #7AZ300AZ3

10.555 National School Lunch Program, #7AZ300AZ3

10.556 Special Milk Program for Children, #7AZ300AZ3

10.559 Summer Food Service Program for Children, #7AZ300AZ3

CFDA No.: 10.558 Child and Adult Care Food Program, #7AZ300AZ3

U.S. Department of Agriculture

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

October 1, 2008 through September 30, 2009

CFDA No.: 12.401 National Guard Military Operations and Maintenance (O&M) Projects, Various

U.S. Department of Defense

Award Period: October 1, 2007 through September 30, 2012

Employment Services Cluster:

CFDA No.: 17.207 Employment Service/Wagner-Peyser Funded Activities, #s E-9-5-8-5084 and E-9-5-9-5084

17.801 Disabled Veterans' Outreach Program (DVOP), #s E-9-5-8-5084 and E-9-5-9-5084

17.804 Local Veterans' Employment Representative Program, #s E-9-5-8-5084 and E-9-5-9-5084

WIA Cluster:

CFDA No.: 17.258 WIA Adult Program, #s AA-15466-06-55, AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55

17.258 ARRA—WIA Adult Program, #AA-18266-09-55

17.259 WIA Youth Activities, #s AA-15466-06-55, AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55

17.259 ARRA—WIA Youth Activities, #AA-18266-09-55

17.260 WIA Dislocated Workers, #s AA-15466-06-55, AA-16015-07-55-A-4, AA-17107-08-55, and AA-18266-09-55

17.260 ARRA—WIA Dislocated Workers, #AA-18266-09-55

U.S. Department of Labor

Award Period: April 1, 2006 through June 30, 2009

April 1, 2007 through June 30, 2010

October 1, 2007 through September 30, 2008

April 1, 2008 through June 30, 2011

October 1, 2008 through September 30, 2009

April 1, 2009 through June 30, 2012

Highway Planning and Construction Cluster:

CFDA No.: 20.205 Highway Planning and Construction, Various

20.219 Recreational Trails Program, Various

U.S. Department of Transportation

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

October 1, 2008 through September 30, 2009

Title I, Part A Cluster:

CFDA No.: 84.010 Title I Grants to Local Educational Agencies, #s S010A060003, S010A070003, and S010A080003

84.389 Title I Grants to Local Educational Agencies, Recovery Act, #S389A090003

Special Education Cluster (IDEA):

CFDA No.: 84.027 Special Education—Grants to States, #s H027A060007, H027A070007, and H027A080007

84.173 Special Education—Preschool Grants, #s H173A060003, H173A070003, and H173A080003

Vocational Rehabilitation Cluster:

CFDA No.: 84.126 Rehabilitation Services—Vocational Rehabilitation Grants to States, #s H126A070002, H126A080002, and H126A090002

Early Intervention Services (IDEA) Cluster:

CFDA No.: 84.181 Special Education—Grants for Infants and Families, #s H181A080001 and H181A080002

84.393 Special Education—Grants for Infants and Families, Recovery Act, #s H181A080001 and H181A080002

CFDA No.: 84.367 Improving Teacher Quality State Grants, #s S367A060049, S367B060003, S367A070049, S367B070003, S367A080049, and S367B080003

U.S. Department of Education

Award Period: July 1, 2006 through September 30, 2007
October 1, 2006 through September 30, 2008
July 1, 2007 through September 30, 2008
October 1, 2007 through September 30, 2009
November 6, 2007 through September 30, 2008
July 1, 2008 through September 30, 2009
October 1, 2008 through September 30, 2010

TANF Cluster:

CFDA No.: 93.558 Temporary Assistance for Needy Families, #s G0802AZTANF and G0902AZTANF

CCDF Cluster:

CFDA No.: 93.575 Child Care and Development Block Grant, #s G0801AZCCDF and G0901AZCCDF

93.596 Child Care Mandatory and Matching Funds of the Child Care and Development Fund, #s G0801AZCCDF and G0901AZCCDF

93.713 ARRA—Child Care and Development Block Grant, #s G0901AZCCDF

Medicaid Cluster:

CFDA No.: 93.775 State Medicaid Fraud Control Units

93.777 State Survey and Certification of Health Care Providers and Suppliers

93.778 Medical Assistance Program

93.778 ARRA—Medical Assistance Program

CFDA No.: 93.658 Foster Care—Title IV-E, #s 0701AZ1401, 0801AZ1401, and 0901AZ1401

CFDA No.: 93.658 ARRA—Foster Care—Title IV-E, #0901AZ1402

CFDA No.: 93.767 Children's Health Insurance Program

CFDA No.: 93.959 Block Grants for Prevention and Treatment of Substance Abuse, #s B1AZSAPT-07-5 and 3B08T10004-08S1

U.S. Department of Health and Human Services

Award Period: October 1, 2006 through September 30, 2007
October 1, 2006 through September 30, 2008
October 1, 2007 through September 30, 2008
October 1, 2007 through September 30, 2009
October 1, 2008 through September 30, 2009
October 1, 2008 through September 30, 2010

Homeland Security Cluster:

CFDA No.: 97.067 **Homeland Security Grant Program, #s 2006-GE-T6-4007, 2007-SG-N6-0004, 2007-GE-T7-0006, 2007-SG-N6-0007, 2008-GE-T8-0021, and 2008-SG-T8-0007**

U.S. Department of Homeland Security

Award Period: November 1, 2006 through October 31, 2008
November 1, 2006 through September 30, 2008
July 1, 2007 through June 30, 2010
September 1, 2008 through August 31, 2011

Allowable Costs/Cost Principles

Questioned Cost: \$498,752

Criteria: In accordance with OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, Attachment A, paragraphs C.1.b and 3.a., costs charged to federal programs should be based on the relative benefits received.

Condition and context: The State of Arizona did not comply with the allowable costs/cost principles requirements with respect to the 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.

Effect: During fiscal year 2009, these charges totaled \$498,752, including \$158,408 for the major federal programs listed above and \$340,344 for all other federal programs. This finding is noncompliance with the allowable costs/cost principles requirements and could potentially affect all federal programs administered by the affected state agencies that incurred payroll costs.

Cause: The noncompliance resulted from a statutory requirement that these programs be charged for general agency counsel service costs, and therefore, this was not caused by the federal programs' administration.

Recommendation: 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.

This finding was similar to a prior-year finding.

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.