



## SOCIAL SECURITY

Office of the Inspector General

### MEMORANDUM

Date: AUG 31 2001

Refer To:

To: Linda S. McMahon  
Regional Commissioner  
for San Francisco

From: Assistant Inspector General  
for Audit

Subject: Audit of the Administrative Costs Claimed by the Arizona Department of Economic Security for its Disability Determination Services Administration (A-15-99-51009)

The attached final report presents the results of our audit. Our objectives were to evaluate the Arizona Department of Economic Security for its Disability Determination Services Administration's internal controls over the accounting and reporting of administrative costs and to determine if the costs claimed were allowable and properly allocated.

Please comment within 60 days from the date of the memorandum on corrective action taken or planned on each recommendation. If you wish to discuss the final report, please call me or have your staff contact Frederick Nordhoff, Director, Financial Management and Performance Monitoring Audit Division, at (410) 966-6676.

A handwritten signature in black ink that reads "Steven L. Schaeffer".

Steven L. Schaeffer

### Attachment

cc:

John L. Clayton, Director, Department of Economic Security  
Vince Wood, Assistant Director, Division of Benefits and Medical Eligibility, DES  
Nancy X. West, Program Administrator, Disability Determination Services Administration  
Kenneth D. Nibali, Associate Commissioner, Office of Disability  
Thomas G. Staples, Associate Commissioner, Office of Financial Policy and Operations

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**OFFICE OF  
THE INSPECTOR GENERAL**

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**SOCIAL SECURITY ADMINISTRATION**

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**AUDIT OF THE ADMINISTRATIVE  
COSTS CLAIMED BY THE ARIZONA  
DEPARTMENT OF ECONOMIC  
SECURITY FOR ITS DISABILITY  
DETERMINATION SERVICES  
ADMINISTRATION**

**August 2001**

**A-15-99-51009**

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**AUDIT REPORT**

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## **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.

# *Executive Summary*

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## **OBJECTIVES**

The objectives of our audit of the Arizona Department of Economic Security (AZ-DES) for its Disability Determination Services Administration (AZ-DDSA) were to:

- evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as of the draw down of Social Security Administration (SSA) funds;
- determine whether costs claimed on the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) for the period October 1, 1995 through September 30, 1998, were allowable and properly allocated; and
- determine if the aggregate of the SSA funds drawn down agreed with total expenditures for the Fiscal Years (FY) 1996 through 1998 disability determinations.

## **BACKGROUND**

The Disability Insurance (DI) program is designed to provide benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program provides a nationally uniform program of income to financially needy individuals who are aged, blind and/or disabled.

SSA is primarily responsible for implementing the general policies governing the development of the disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by an agency in each State according to Federal regulations. In carrying out its obligation, each State agency (SA) is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each SA is authorized to purchase medical examinations, x-rays and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources. SSA pays the SA for 100 percent of allowable expenditures incurred in performing administrative functions under the DI program.

## **RESULTS OF REVIEW**

AZ-DDSA, for FYs 1996 through 1998, claimed costs of \$47,976,485. Except for the following concerns, the results of our tests indicated that, with respect to the items tested, the AZ-DDSA financial reporting and related draw downs complied in all material respects with Federal cost principles and regulations. We also noted internal control deficiencies over certain areas that are addressed in detail in the body of the report.

- Inconsistent accounting and reporting of obligations;
- Inconsistent accounting and reporting of automated investment funds (AIF);
- Unsegregated AIF accounting records causing reporting inaccuracies;
- Failure to maintain required inventory records; and
- Lack of formalized process for determining reasonableness of medical fees.

## **CONCLUSIONS AND RECOMMENDATIONS**

We concluded that AZ-DDSA maintained documentation to support reimbursed claims and that such costs were both allowable and properly allocated between appropriate funds. However, improvements are needed in record keeping practices in order to accurately account for and report the status of both unliquidated obligations and funding provided by SSA specifically for enhancements to the intelligent workstation/local area network. Also, required inventory controls have not been implemented to safeguard computer equipment. We recommend that SSA instruct AZ-DDSA and AZ-DES to:

- Reduce reported Limitation on Administrative Expenses (LAE) unliquidated obligations for FYs 1997 and 1998 by \$293,467 and \$249,892 respectively. Also, reduce FY 1998 AIF unliquidated obligations by \$163,400. These adjustments totaling \$706,759 are necessary to deobligate amounts no longer needed to fund expenditures as well as cancel obligations not properly established.
- Improve the reporting of the status of obligations by the timely review of unliquidated obligations to determine if they remain valid, and to deobligate those obligations that are no longer required.
- Reduce FY 1997 AIF Form SSA-4513 expenditures by \$137,759, which could not be substantiated.
- Reduce LAE and increase AIF expenditures for FY 1997 and 1998 in the amounts of \$20,264 and \$153,863, respectively to recognize AIF costs inappropriately charged to LAE funding.

- Increase reported FY 1998 AIF expenditures by \$95,697 to properly reflect AIF expenditures not captured from accounting records.
- Document by memorandum, that the equipment on the State's supplemental inventory list is part of the official State inventory records and that the State holds title to this equipment. For future equipment acquisition, include the unit cost information on the supplemental inventory list.
- Ensure appropriate and accurate fee setting in the future by establishing procedures to periodically review and compare fee schedules for providers with the fees paid by Federal and other State agencies for the same or similar types of services.

## **AGENCY COMMENTS**

AZ-DDSA in coordination with the Regional Commissioner's Office, had taken action to implement our recommendations for the most part. However, the Regional Commissioner's office believed that additional AZ-DDSA work to enter the EDP inventory on the Official State Inventory would be onerous. The AZ-DDSA commented that they complied with the Regional Commissioner Office's direction.

## **OFFICE OF THE INSPECTOR GENERAL'S RESPONSE**

We generally agree with the Acting Assistant Regional Commissioner on recommendation six. Based on the Agency's response, we have modified the recommendation.

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# ACRONYMS

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Act	Social Security Act
AIF	Automation Investment Funds
AZ-DDSA	Arizona Disability Determination Services Administration
AZ-DES	Arizona Department of Economic Security
CFR	Code of Federal Regulations
DI	Disability Insurance
EDP	Electronic Data Processing
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
IWS/LAN	Intelligent Workstation/Local Area Network
LAE	Limitation on Administrative Expenses
MER/CE	Medical Evidence Records and Consultative Examinations
OFS	Arizona Office of Financial Services
OMB	Office of Management and Budget
POMS	Program Operations Manual System
SA	State Agency
SFROD	San Francisco Regional Office of Disability
SSA	Social Security Administration
SSI	Supplemental Security Income

# *Introduction*

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## **OBJECTIVES**

The objectives of our audit of the Arizona Department of Economic Security (AZ-DES) for its Disability Determination Services Administration (AZ-DDSA) were to:

- Evaluate internal controls over the accounting and reporting of the administrative costs claimed, as well as of the draw down of Social Security Administration (SSA) funds;
- Determine whether costs claimed on the State Agency Report of Obligations for SSA Disability Programs (Form SSA-4513) for the period October 1, 1995 through September 30, 1998, were allowable and properly allocated; and
- Determine if the aggregate of the SSA funds drawn down agreed with total expenditures for the Fiscal Years (FY) 1996 through 1998 disability determinations.

## **BACKGROUND**

The Disability Insurance (DI) program was established in 1954 under title II of the Social Security Act (Act). The program is designed to provide benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program was created as a result of the Social Security Amendments of 1972 with an effective date of January 1, 1974. SSI, (title XVI of the Act) provides a nationally uniform program of income to financially needy individuals who are aged, blind and/or disabled.

SSA is primarily responsible for implementing the general policies governing the development of the disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by an agency in each State according to Federal regulations. In carrying out its obligation, each State agency (SA) is responsible for determining claimants' disabilities and ensuring that adequate evidence is available to support its determinations. To assist in making proper disability determinations, each SA is authorized to purchase medical examinations, x-rays and laboratory tests on a consultative basis to supplement evidence obtained from the claimants' physicians or other treating sources.

SSA pays the SA for 100 percent of allowable expenditures. Each year, SSA approves a disability determination services (DDS) budget. Once approved, the SA withdrew Federal funds through the U.S. Department of Health and Human Services' (HHS) Payment Management System to meet immediate program expenses. Beginning April 1997, the SA could only withdraw Federal funds from the Department of the Treasury's (Treasury) Automated Standard Application for Payments System for this purpose. At the end of each quarter of the Federal FY, each SA submits to SSA, a Form SSA-4513 to account for program disbursements and unliquidated obligations.

HHS' Division of Payment Management is responsible for operating this centralized payment system. Cash drawn from the Treasury to pay for program expenditures is to be drawn according to Federal regulations<sup>1</sup> and in accordance with intergovernmental agreements entered into by Treasury and States under the authority of the Cash Management Improvement Act (CMIA).<sup>2</sup> An advance or reimbursement for costs under the program must be made according to the Office of Management and Budget's (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*.

In addition to funding for regular administration of AZ-DDSA provided through the SSA limitation on administrative expenses (LAE) funds, AZ-DDSA receives spending authorizations from the SSA automation investment funds (AIF). AIF is provided to AZ-DDSA for costs related to the Intelligent Workstation/Local Area Network (IWS/LAN). SSA had funded and distributed IWS/LAN computer equipment to AZ-DDSA. However, to accommodate the IWS/LAN equipment, AZ-DDSA had to alter facilities, add telecommunication lines, provide furniture and train staff. The funds provided by AIF were to be accounted for, reported and drawn down separately from LAE funds.

AZ-DDSA is a component within AZ-DES. Budgets totaling \$47,986,000 were authorized for the three FYs under audit. AZ-DDSA accounting functions are performed primarily by the Office of Financial Services (OFS). Indirect costs are allocated according to the AZ-DES cost agreement, which is approved by HHS.

## **SCOPE AND METHODOLOGY**

To accomplish our objectives, we obtained evidence to evaluate recorded financial transactions in terms of their allowability under OMB Circular A-87 and appropriateness as defined by SSA's Program Operations Manual System (POMS).

We reviewed the administrative costs totaling \$48,343,654 reported by AZ-DDSA for the FYs ended September 30, 1996, through 1998. This amount includes costs associated with SSA's AIF activities, which is intended for installation of and training on SSA's Intelligent Network in DDSs nationwide. Our audit coverage included any subsequent financial activity affecting these FYs as of June 30, 1999. As of that time, SSA had

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<sup>1</sup> 31 C.F.R. § 205.

<sup>2</sup> Public Law No. 101-453.

reimbursed AZ-DDSA \$47,616,198 for amounts which had been disbursed. Obligations reported as unliquidated amounted to \$724,416.

We also:

- Reviewed applicable Federal regulations, pertinent parts of the POMS DI 39500 "DDS Fiscal and Administrative Management" and other instructions pertaining to administrative costs incurred by AZ-DDSA and the draw down of SSA funds covered by the CMIA;
- Interviewed staff at AZ-DDSA, AZ-DES, Arizona State Office of the Auditor General, and SSA's San Francisco Regional Office of Disability (SFROD);
- Reviewed AZ-DDSA general policies and procedures;
- Reviewed the Memorandum of Understanding between SSA and the AZ-DDSA which allows for non-SSA work;
- Evaluated and tested internal controls regarding accounting and financial reporting and cash management activities;
- Examined the administrative expenditures (personnel, medical service, indirect, and all other nonpersonnel costs) incurred and claimed by AZ-DDSA for the period October 1, 1995 through September 30, 1998;
- Reviewed the reconciliation of the official State accounting records to the administrative costs reported by AZ-DDSA to SSA on the Form SSA-4513 report for the period October 1, 1995 through September 30, 1998; and
- Compared the amount of SSA funds drawn for support of program operations to the allowable expenditures reported on the Form SSA-4513.

We also reviewed internal controls regarding the administration of the disability determination activities and examined the administrative expenditures (personnel, medical service, indirect, and all other nonpersonnel costs).

We tested documents supporting the costs claimed by AZ-DDSA for the period October 1, 1995 through September 30, 1998, as reported to SSA on the Form SSA-4513 as of June 30, 1999.

We performed work in Phoenix and Tucson, Arizona at AZ-DDSA and the parent agency, AZ-DES; as well as in Baltimore, Maryland, at SSA Headquarters. We held discussions with AZ-DES; the Arizona State Office of the Auditor General; AZ-DDSA; and SSA's SFROD. Our field work was conducted during the period from October 1999 through April 2000. This audit was conducted in accordance with generally accepted government auditing standards.

# *Results of Review*

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Except for the issues discussed below, we determined that costs claimed were allowable and properly allocated and aggregate funds drawn down agreed with the total expenditures. Our report also includes recommended improvements to AZ-DDSA's internal controls over the accounting and reporting of administrative costs claimed.

## **Inconsistent Accounting And Reporting of Obligations**

AZ-DDSA had not reviewed unliquidated obligations totaling \$727,456 reported in FYs 1997 and 1998 as required in POMS DI 39506.812. Regarding unliquidated obligations reported under LAE funding, our discussion with AZ-DDSA officials disclosed that there were no obligations remaining for FY 1997, and only \$20,697 remaining for FY 1998 that we were able to confirm. As of the end of our field work, no action had been taken to deobligate those amounts no longer deemed valid.

In FY 1998, AZ-DDSA had reported AIF unliquidated obligations of \$163,400 for site preparation costs. We asked to review documentation regarding this reported obligation and were informed that the AZ-DDSA was not able to substantiate that a valid obligation had been established. POMS section DI 39506.803A.3 defines unliquidated obligations as "unpaid obligations arising from a commitment or promise to pay for goods or services or both, whether or not the goods or services have been received or a bill rendered."

The Arizona OFS and the AZ-DDSA need to coordinate review of reported obligations to ensure their validity. We are recommending an adjustment to reduce the reported unliquidated obligations on the LAE and AIF Form SSA-4513 for FYs 1997 and 1998 in the amount of \$706,759 as shown in the following table.

## UNDOCUMENTED UNLIQUIDATED OBLIGATIONS

<b>Line Item</b>	<b>FY 1997</b>	<b>FY 1998</b>	<b>Line Item Total</b>
Payroll	\$ 826	\$ 0	\$ 826
Medical Evidence Records and Consultative (MER/CE)	121,085	244,224	365,309
Indirect Cost	17,964	2,697	20,661
All Other Nonpers. Costs	153,592	2,971	156,563
<b>Subtotal</b>	<b>293,467</b>	<b>249,892</b>	<b>543,359</b>
Auto. Invest. Fund		163,400	163,400
<b>FY Total</b>	<b>\$293,467</b>	<b>\$413,292</b>	<b>\$706,759 *</b>

\* Adjustments are shown in Appendix B, C, and E, and labeled as Adjustment 1.

### Inconsistent Accounting And Reporting of AIF

As part of our review of AZ-DDSA disbursement activity, we also requested the Arizona OFS provide us with documentation to support the FY 1997 AIF disbursements of \$158,023 for site preparation costs. AZ-DDSA could not provide us any records of this expenditure. Further inquiry into this reported expenditure disclosed that the amount in question coincided with the amount of funding provided by SSA but such amounts had not been drawn down. Since we could not substantiate this expenditure, we are recommending an adjustment to eliminate this reported amount (as shown in Appendix D, Adjustment 2).

### Unsegregated AIF Accounting Records Causing Reporting Inaccuracies

We also noted that AIF accounting records were not always segregated from the LAE accounting records. A letter to all DDS Administrators<sup>3</sup> stated in part that "AIF funding can be used for only certain...IWS/LAN activities...." The AIF funds provided for AIF expenditures were to be accounted for, drawn down and reported separately and not to be part of the LAE funds. As we earlier reported, AZ-DDSA was not able to substantiate the \$158,023 in site preparation costs reported for FY 1997 or the \$163,400 reported as unliquidated obligations in FY 1998. Since no other costs were reported in respect to travel, training or other associated indirect costs in FY 1997 and only \$45,746 had been reported in FY 1998, we became concerned whether all AIF costs disbursed had been accounted for and reported. Especially in consideration that \$461,703 had been allocated to the AZ-DDSA specifically for AIF purposes.

<sup>3</sup> DDS Administrators' Letter No. 396 *Disability Determination Services Accounting Procedures for Automation Investment Funding*, August 28, 1996.

As a result of our examination of internal accounting records, we identified an additional \$270,719 (\$20,264 in FY 1997 and \$250,455 in FY 1998) in AIF expenditures which had not been reported. We believe there were two reasons for this reporting omission. First, not all AZ-DDSA staff had recognized that AIF was a distinct fund and that such transactions needed to be separately coded and reported. These transactions amounted to \$20,264 in FY 1997 and \$153,863 in FY 1998 (See Appendix B through E, Adjustments 3). Secondly, in FY 1998, OFS had failed to capture \$95,697 (Appendix E, Adjustment 4) in AIF expenditures accumulated in internal accounting records but not included in the amounts reported in the FY 1998 Form SSA-4513 report. Based on the additional expenditure information, we identified the AZ-DDSA had utilized 68 percent or \$315,570 of the \$461,703 in funds budgeted for FYs 1997 and 1998 AIF purposes.

## **Failure to Maintain Required Inventory Records**

AZ-DES did not maintain inventory lists as required by both State and SSA regulations. State guidelines require the maintaining and accounting for purchased equipment. Federal regulations<sup>4</sup> provide for the State to have title to equipment purchased for disability program purposes. The State is also responsible for maintaining all such equipment to include identifying the equipment by labeling and by inventory. The State of Arizona also requires property and inventory controls over equipment purchased.<sup>5</sup>

SSA funded and provided AZ-DDSA with 274 personal computers and 26 printers for which no inventory list or periodic inventory was prepared. The lack of appropriate inventory procedures occurred because there was uncertainty between the State and SSA as to the value and ownership of the equipment.

The regulations clearly indicate that the State possesses title to the equipment. The State is also required to properly account for and maintain such equipment. The AZ-DDSA should coordinate this activity with the SFROD who should be able to obtain information regarding the value of the equipment they had delivered to the AZ-DDSA. Without the AZ-DES monitoring through physical inventory, the electronic data processing (EDP) equipment could be stolen or misplaced without detection. As such, necessary steps should be taken to establish inventory controls.

We are recommending that AZ-DDSA obtain listings of EDP equipment distributed by SSA and enter the information in the official State inventory records. Maintaining such records will facilitate annual inventories and could help to detect any stolen or misplaced equipment.

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<sup>4</sup> 20 C.F.R. §§ 404.1628 and 416.1028.

<sup>5</sup> Arizona Accounting Manual – Sec. G, Fixed Assets Policy

## **Lack Of Formalized Process for Determining Reasonableness Of Medical Fees**

AZ-DDSA had not established a process to determine the reasonableness of medical fees. We conducted tests to ascertain whether the fees charged by the AZ-DDSA are reasonable. POMS<sup>6</sup> requires States to ascertain that the fees paid for the cost of medical services and MER/CEs are reasonable and not in excess of other similar Federal or State programs. POMS section DI 39545.410 also provides guidance to the States on development, monitoring, and maintenance of fee schedules. Our tests of CE fees included requesting fee schedules from Medicare, as applicable to the State of Arizona, and other similar State programs. AZ-DDSA assisted us in this review by identifying State programs that do similar medical service work. Our testing indicated that the fees were reasonable.

## **OTHER MATTERS**

### **BORROWING PRIOR YEAR FUNDS**

Our review of AZ-DDSA's automated standard application payment reports and expenditure data disclosed that two draw downs totaling \$1,505,971 were drawn from FY 1998 funding to reimburse AZ-DDSA for expenditures incurred in FY 1999. The funds for the two draw downs were returned in one transaction 1 month later. Internal controls were not in place to prevent the occurrence of draw downs against prior years' funding. Although the funds were returned within a 1-month period, the State was not in compliance with the applicable Federal law, which requires that "(t)he balance of an appropriation or fund limited for obligation to a definite period is available only for payment of expenses properly incurred during the period of availability. . . ."<sup>7</sup> The AZ-DES staff stated this happened because current funding was delayed, and the use of the prior period funds enabled them to meet the current payment needs. The SFROD staff said that if the AZ-DDSA did not have sufficient funding, the AZ-DES should have contacted SFROD to remedy the problem as opposed to borrowing funds from another FY. The SFROD staff informed us that they were not contacted about a shortage of funding. We believe closer coordination is needed between the Regional Commissioner's staff and the AZ-DDSA to manage budgetary needs.

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<sup>6</sup> DI 39545.210.1.

<sup>7</sup> 31 U.S.C. § 1502(a).

# *Conclusions and Recommendations*

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We concluded that AZ-DDSA maintained documentation to support reimbursed claims and that such costs were both allowable and properly allocated between appropriate funds. However, improvements are needed in recordkeeping practices in order to accurately account for and report the status of both unliquidated obligations and funding provided by SSA specifically for enhancements to IWS/LAN. Also, required inventory controls have not been implemented to safeguard computer equipment. We recommend that SSA instruct AZ-DDSA and AZ-DES to:

1. Reduce reported LAE unliquidated obligations for FYs 1997 and 1998 by \$293,467 and \$249,892, respectively. Also reduce FY 1998 AIF unliquidated obligations by \$163,400. These adjustments totaling \$706,759 are necessary to deobligate amounts no longer needed to fund expenditures, as well as cancel obligations not properly established.
2. Improve the reporting of the status of obligations by the timely review of unliquidated obligations to determine if they remain valid, and to deobligate those obligations that are no longer required.
3. Reduce FY 1997 AIF Form SSA-4513 expenditures by \$137,759 (Appendix D) which could not be substantiated.
4. Reduce LAE and increase AIF expenditures for FY 1997 and 1998 in the amounts of \$20,264 and \$153,863 to recognize AIF costs inappropriately charged to LAE funding.
5. Increase reported FY 1998 AIF expenditures by \$95,697 to properly reflect AIF expenditures not captured from accounting records.
6. Document by memorandum, that the equipment on the State's supplemental inventory list is part of the official State inventory records and that the State holds title to this equipment. For future equipment acquisition, include the unit cost information on the supplemental inventory list.
7. Ensure appropriate and accurate fee setting in the future by establishing procedures to periodically review and compare fee schedules for providers with the fees paid by Federal and other State agencies for the same or similar types of services.

## **AGENCY COMMENTS**

AZ-DDSA in coordination with the Regional Commissioner's Office, had taken action to implement our recommendations for the most part. However, the Regional Commissioner's office believed that additional AZ-DDSA work to enter the EDP inventory on the Official State Inventory would be onerous. The AZ-DDSA commented that they complied with the Regional Commissioner Office's direction.

## **OFFICE OF THE INSPECTOR GENERAL'S RESPONSE**

We generally agree with the Acting Assistant Regional Commissioner on recommendation six. Based on the Agency's response, we have modified the recommendation.

# *Appendices*

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## **Appendix A**

# **ARIZONA DISABILITY DETERMINATION SERVICES LIMITATION OF ADMINISTRATIVE EXPENSES (LAE)**

LAE COSTS Fiscal Year 1996		Unliquidated Obligations			Disbursements			Total Obligations Disbursements	
		Personnel	Medical	Indirect	All Other	Indirect	All Other	Total	
As Reported by the Arizona- Disability Determination Services Administration		\$0.00	\$0.00	\$0.00	\$6,728,303.00	\$3,877,349.00	\$901,969.00	\$2,141,736.00	\$13,649,357.00
<b>Audit Adjustments:</b>  No recommended adjustments									
Total Adjustments		\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
<b>Allowed as a Result of Audit</b>		<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$6,728,303.00</b>	<b>\$3,877,349.00</b>	<b>\$901,969.00</b>	<b>\$2,141,736.00</b>	<b>\$13,649,357.00</b>

## **Appendix B**

# **ARIZONA DISABILITY DETERMINATION SERVICES LIMITATION OF ADMINISTRATIVE EXPENSES (LAE)**

## **ARIZONA LAE COSTS Fiscal Year 1997**

						TOTAL OBLIGATIONS			TOTAL DISBURSEMENTS		
	Unliquidated Obligations	Medical	Indirect	All Other	Total	Disbursements	Medical	Indirect			
As Reported by State Agency	826	121,085	17,964	153,592	293,467	7,750,188	4,644,863	1,088,731	2,873,440	16,357,222	16,650,689
<b>Audit Adjustments:</b>											
1. To reduce unliquidated obligations for which documentation was not located (see page 5).	(826)	(121,085)	(17,964)	(153,592)	(293,467)					(293,467)	
3. To reclassify Automation Investment Funds costs originally recorded as LAE costs (see page 5)										(20,264)	
<b>Total Adjustments</b>	<b>(\$826)</b>	<b>(\$121,085)</b>	<b>(\$17,964)</b>	<b>(\$153,592)</b>	<b>(\$293,467)</b>	<b>\$0</b>	<b>\$0</b>	<b>(\$1,800)</b>	<b>(\$18,464)</b>	<b>(\$20,264)</b>	<b>(\$313,731)</b>
<b>Allowed as a Result of Audit</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$7,750,188</b>	<b>\$4,644,863</b>	<b>\$1,086,931</b>	<b>\$2,854,976</b>	<b>\$16,336,958</b>	<b>\$16,336,958</b>

Appendix C

# ARIZONA DISABILITY DETERMINATION SERVICES LIMITATION OF ADMINISTRATIVE EXPENSES (LAE)

\* Indirect cost computed by Audit

## **Appendix D**

# **ARIZONA DISABILITY DETERMINATION SERVICES AUTOMATION OF INVESTMENT FUNDS (AIF)**

AIF COSTS Fiscal Year 1997											
	Unliquidated Obligations			Disbursements			Total Obligations Disbursements				
	Site Prep.	Travel Training	Furniture	Indirect	Total	Site Prep.	Travel Training	Furniture	Indirect	Total	
As reported by State Agency	0	0	0	0	0	158,023	0	0	0	158,023	158,023
<b>Audit Adjustments:</b>						(158,023)					(158,023)
2. Expenditures which could not be supported (See page 5)											
3. Additional AIF costs incorrectly recorded as Limitation on Administrative Expenses (See page 5)							1,751	16,713	1,800	20,264	20,264
Total Adjustments	\$0	\$0	\$0	\$0	\$0	(\$158,023)	\$1,751	\$16,713	\$1,800	(\$137,759)	(\$137,759)
<b>Allowed as a Result of Audit</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$1,751	\$16,713	\$1,800	\$20,264	\$20,264

## Appendix E

### ARIZONA DISABILITY DETERMINATION SERVICES AUTOMATION OF INVESTMENT FUNDS (AIF)

AIF COSTS Fiscal Year 1998		Unliquidated Obligations					Disbursements				Total Obligations Disbursements
		Site Prep.	Travel Training	Furniture	Indirect	Total	Site Prep	Travel Training	Furniture	Indirect	Total
As reported by State Agency		163,400	0	0	0	163,400	44,851	895	0	0	45,746
<b>Audit Adjustments:</b>						(163,400)					(163,400)
1. To reduce unliquidated obligations for which documentation was Not located (page 5).											
3. To reclassify AIF costs originally classified as Limitation on Administrative Expenses (see page 5)							96,959	4,335	38,900	13,669	153,863
4. AIF expenditures not reported on Form SSA-4513 (See page 5.)							84,025	(895) *1		12,567	95,697
Total Adjustments		(\$163,400)	\$0	\$0	\$0	(\$163,400)	\$180,984	\$3,440	\$38,900	\$26,236	\$249,560
<b>Allowed as a Result of Audit</b>		\$0	\$0	\$0	\$0	\$0	\$225,835	\$4,335	\$38,900	\$26,236	\$295,306
*1 - \$895 reported on the Form SSA 4513 was not in accounting records											\$295,306

## ***Appendix F***

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### **Agency Comments and Arizona Disability Determination Services Administration Comments**



## SOCIAL SECURITY

### MEMORANDUM

Date: JUN 4 2001

Refer To S2D9G4

To: Steven L. Schaeffer  
Assistant Inspector General  
for Audit

From: Acting Assistant Regional Commissioner  
Management and Operations Support

Subject: Audit of the Administrative Costs Claimed by the Arizona  
Department of Economic Security for its Disability Determination  
Services Administration (A-15-99-51009)

Thank you for the opportunity to review the draft report of your audit of the Arizona Department of Economic Security for its Disability Determination Services Administration. Per your request, we are providing below written comments for each of the seven recommendations contained in the draft report.

Recommendation 1: Reduce reported LAE unliquidated obligations for FYs 1997 and 1998 by \$293,467 and \$249,892 respectively. Also reduce FY 1998 AIF unliquidated obligations by \$163,400. These adjustments totaling \$706,759 are necessary to deobligate amounts no longer needed to fund expenditures, as well as cancel obligations not properly established.

Response: Subsequent to the audit Arizona reduced all of its unliquidated obligations for FYs 1997 and 1998 to zero. The years are now considered closed.

Recommendation 2: Improve reporting of the status of obligations by the timely review of unliquidated obligations to determine if they remain valid, and to deobligate those obligations that are no longer required.

Response: We find this recommendation reasonable.

Recommendation 3: Reduce FY 1997 AIF Form SSA-4513 expenditures by \$137,759 which could not be substantiated.

Response: We find this recommendation reasonable but believe the amount should be adjusted. In the year that passed since the audit work was completed, the Arizona DDSA, the Arizona Office of Financial Services and the regional office worked hard to resolve the problems with the AIF expenditures. Arizona submitted a final AIF SSA-4513 for FY 1997 in October 2000 showing total AIF expenditures of \$23,314, which differs slightly from your recommended amount of \$20,264.

Recommendation 4: Reduce LAE and increase AIF expenditures for FY 1997 and 1998 in the amounts of \$20,264 and \$153,863 to recognize AIF costs inappropriately charged to LAE funding.

Response: We find this recommendation reasonable but, as with recommendation 3, we believe the amounts have changed slightly. Based on the additional work performed by the Arizona DDS, the Arizona Office of Financial Services and the regional office, we support the final AIF SSA-4513 for FY 1997 amount that shows total expenditures of \$23,314. The final AIF SSA-4513 for FY 1998 shows total expenditures of \$276,636, which differs slightly from your audit chart amount of \$295,306.

Recommendation 5: Increase reported FY 1998 AIF expenditures by \$95,697 to properly reflect AIF expenditures not captured from accounting records.

Response: We find this recommendation reasonable

Recommendation 6: Obtain listings of EDP equipment distributed by SSA and enter the equipment on the Official State inventory records.

Response: We do not support this recommendation. The State requires items valued at \$5,000 or more to be entered into the Official State inventory records. Items with a unit cost of less than \$5,000 may be tagged with proper identification and kept on a supplementary list. The individual EDP equipment items are valued at less than \$5,000, they contain an SSA tag, and the DDSA maintains a supplementary listing of all EDP items in addition to SSA records. The DDS is meeting all of the regulatory and POMS requirements regarding inventory of EDP equipment. The sole exception is that the State's supplementary list does not contain the unit cost as required by POMS DI 39500.020. SSA has never furnished this information. It would be onerous to require the additional work of entering the EDP equipment on the Official State inventory.

Recommendation 7: Ensure appropriate and accurate fee setting in the future by establishing procedures to periodically review and compare fee schedules for providers with the fees paid by Federal and other State agencies for the same or similar types of services.

Response: We find this recommendation reasonable

If you have any questions regarding our comments, please call me. If staff have any questions, they may call Diane Trewin at (510) 970-8295.



Diane Blackman

Diane Blackman



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**ARIZONA DEPARTMENT OF ECONOMIC SECURITY**

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Disability Determination Service Administration  
3310 N. 19<sup>th</sup> Ave.- Phoenix, AZ 85015 - 602-264-2644

Jane Dee Hull  
Governor

John L. Clayton  
Director

July 26, 2001

Gus Villalobos  
Social Security Administration  
Center for Disability  
1221 Nevin Avenue  
Richmond, California 94801

**RE: Audit of the Administrative Costs Claimed by the Arizona Department of Economic Security for the Disability Determination Service Administration (A-15-99-51009)**

Dear Gus:

**Recommendation 1:** Reduce unliquidated obligations for FY's 1997 & 1998 including the FY 1998 AIF fund.

**Response:** Arizona agrees unliquidated obligations were not reduced timely. Subsequent to the audit, FY1997, FY1998 and FY1999 have all been reduced to zero with final SSA-4514 reports filed. We believe the auditors did not have all the data available when they were performing the audit so the data was updated and quarterly reports were final for the years after the auditors left.

**Recommendation 2:** Improve reporting of the status of obligations by the timely review of unliquidated obligations.

**Response:** Arizona agreed with this when the auditor's were here and proceeded to create monthly computer reports that give us unliquidated medical obligations that need to be investigated. This has been functioning for over 12 months now. We eliminate items on a monthly basis.

**Recommendation 3:** Reduce FY1997 AIF Form SSA-4513 Expenditures.

**Response:** Arizona agrees, however, the amount was different than what was recommended by the auditors based on further investigation. This happened because the DDSA program input the requests in 1997, but the work was actually done in FY 1998. The final SSA-4513 was completed and included the changes.

Recommendation 4: Reduce LAE and increase AIF expenditures for FY's 1997 & 1998.

Response: Arizona had not completed the investigation regarding LAE verses AIF funds, but moved money as appropriate after our investigation. Arizona knew and advised the auditors we were working to resolve the AIF funds issue.

Recommendation 5: Increase reported FY 1998 AIF expenditures.

Response: Although the amounts are very close to our final report, they are not exact. We knew and were working on fixing the amounts when the auditors were here. Different budget staff had just been assigned to the DDSA program, and did correct expenditures. We worked with our Social Security Administration Regional Office on the changes.

Recommendation 6: Obtain listing of EDP equipment distributed by SSA and enter the equipment on the official state inventory.

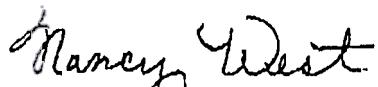
Response: The equipment distributed by SSA is not entered on the official state inventory. The State of Arizona followed the Social Security Administration's Regional Office directions on all EDP equipment received directly from the Social Security Administration. All items that were purchased by DES as state equipment were listed on the DES inventory systems. The DES inventory section does send out an employee to inventory the items purchased by DES once a year.

Recommendation 7: Ensure appropriate and accurate fee setting for consultative examinations so the fees are consistent with other State and Federal programs.

Response: Arizona agrees with this recommendation. Before the auditor's arrived we had established and hired a new professional relations position. We worked on the spreadsheet and had more than 50% of it complete when the auditor's left Arizona. Our fees were found to be reasonable. We now have the spreadsheet completed with all the fees. It will be updated annually.

If you have any questions regarding our comments, please call Nyla Waltz or me at 602-264 2644.

Sincerely,



Nancy West

Program Administrator

C:

N. Waltz

DDSA File

## ***Appendix G***

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# **OIG Contacts and Staff Acknowledgements**

### ***OIG Contacts***

Frederick C. Nordhoff, Director, Financial Management and Performance Monitoring Audits, (410)-966-6676

Carl Markowitz, Audit Manager, (410)-965-9742

Patrick Kennedy, Audit Manager, (410)-965-9724

### ***Acknowledgements***

In addition to those named above:

Sig Wisowaty, Auditor-in-Charge

Steve Sachs, Senior Auditor

Alan Lang, Senior Auditor, Statistical Specialist

Glenn E. Lee, Auditor

Carol Ann Frost, Systems Analyst

Annette DeRito, Program Analyst

For additional copies of this report, please contact Office of the Inspector General's Public Affairs Specialist at (410) 966-5998. Refer to Common Identification Number A-15-99-51009.

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President, National Council of Social Security Management Associations, Incorporated	1
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### **Office of Executive Operations**

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from the Agency, as well as conducting employee investigations within OIG. Finally, OEO administers OIG's public affairs, media, and interagency activities and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

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### **Counsel to the Inspector General**

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.