
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**ADMINISTRATIVE COSTS CLAIMED
BY THE ARIZONA DISABILITY
DETERMINATION SERVICES**

March 2010

A-09-09-19020

AUDIT 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: March 8, 2010

Refer To:

To: Peter D. Spencer
Regional Commissioner
San Francisco

From: Inspector General

Subject: Administrative Costs Claimed by the Arizona Disability Determination Services
(A-09-09-19020)

OBJECTIVE

Our objectives were to (1) evaluate the Arizona Disability Determination Services' (AZ-DDS) internal controls over the accounting and reporting of administrative costs; (2) determine whether costs claimed were allowable and funds were properly drawn; and (3) assess limited areas of the general security controls environment.

BACKGROUND

The Disability Insurance (DI) program, established under Title II of the *Social Security Act* (Act), provides benefits to wage earners and their families in the event the wage earner becomes disabled. The Supplemental Security Income (SSI) program, established under Title XVI of the Act, provides benefits to financially needy individuals who are aged, blind, and/or disabled.

The Social Security Administration (SSA) is responsible for implementing policies for the development of disability claims under the DI and SSI programs. Disability determinations under both DI and SSI are performed by disability determination services (DDS) in each State or other responsible jurisdiction. Such determinations are required to be performed in accordance with Federal law and underlying regulations.¹ In carrying out its obligation, each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. To assist in making proper disability determinations, each DDS 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.

¹ The Act §§ 221 and 1614, 42 U.S.C. §§ 421 and 1382c; see also 20 C.F.R. §§ 404.1601 *et seq.* and 416.1001 *et seq.*

SSA reimburses the DDS for 100 percent of allowable reported expenditures up to its approved funding authorization. The DDS withdraws Federal funds through the Department of the Treasury's (Treasury) Automated Standard Application for Payments system to pay for program expenditures. Funds drawn down must comply with Federal regulations² and intergovernmental agreements entered into by Treasury and States under the *Cash Management Improvement Act of 1990*.³ An advance or reimbursement for costs under the program must comply with Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. At the end of each quarter of the fiscal year (FY), each DDS is required to submit a State Agency Report of Obligations for SSA Disability Programs (SSA-4513) to account for program disbursements and unliquidated obligations.⁴ The SSA-4513 reports expenditures and unliquidated obligations for Personnel Service Costs, Medical Costs, Indirect Costs, and All Other Non-Personnel Costs.⁵

AZ-DDS is a component of Arizona Department of Economic Security (AZ-DES), Division of Benefits and Medical Eligibility. For FYs 2006 and 2007, AZ-DDS had about 227 employees and an authorized budget of \$52.1 million for administrative costs. As of September 30, 2007, AZ-DDS had reported total disbursements of \$50 million and unliquidated obligations of \$2.1 million (see Appendix B).

RESULTS OF REVIEW

We found the costs claimed by AZ-DDS were generally allowable and funds were properly drawn. However, we determined that AZ-DDS and/or AZ-DES

- improperly paid an estimated \$563,812 for missed consultative examinations (CE);
- could have saved an estimated \$334,410 in CE costs incurred at remote locations or locally on weekends;
- improperly paid \$134,506 for CE fees in excess of the maximum allowable rates;
- improperly charged \$29,805 in costs that did not benefit SSA;
- overstated unliquidated obligations by approximately \$1.8 million;
- did not allocate approximately \$6,000 of State-wide indirect costs to SSA's programs; and
- needed to improve controls to adequately protect sensitive information.

² 31 C.F.R. § 205.1 *et seq.*

³ Pub. L. No. 101-453, 104 Stat. 1058, in part amending 31 U.S.C. §§ 3335, 6501, and 6503.

⁴ SSA, POMS, DI 39506.201 and 202. POMS, DI 39506.200 B.4 provides, in part, that "Unliquidated obligations represent obligations for which payment has not yet been made. Unpaid obligations are considered unliquidated whether or not the goods or services have been received."

⁵ SSA, POMS, DI 39506.201 and 202.

PAYMENTS FOR MISSED CEs

AZ-DDS incorrectly paid fees for missed CE appointments. This occurred when AZ-DDS contracted with CE providers to perform CEs at remote locations or locally on weekends. AZ-DDS staff stated that claimants generally received one reminder letter, and appointments were not canceled if the claimant did not respond to the reminder. AZ-DDS staff also stated that appointment cancellation information was not always communicated between staff and entered in the computer system timely, which caused missed appointments. Consequently, AZ-DDS paid CE providers for services they did not perform. Based on our review of a sample of 100 CE projects,⁶ we found that in 88 of the projects, AZ-DDS paid \$26,470 for missed CE appointments. Based on our sample results, we estimate that SSA reimbursed AZ-DDS \$563,812 for missed CE appointments (see Appendix C).

SSA has a no-pay policy for missed CE appointments. However, on a case-by-case basis, the DDS may request an exemption to the no-pay policy. To obtain an exemption, the DDS should work with the SSA Regional Office (RO) to document the situation and forward the request with supporting documentation to the Office of Disability Determinations (ODD) for approval.⁷ Our review found that AZ-DDS and the SSA RO did not obtain an exemption, as required.

SCHEDULING OF CEs

AZ-DDS has contracts with medical providers to perform CEs at remote locations and locally on weekends. These contracts specify the number and types of examinations that should be scheduled and performed. In addition, the medical providers are paid a fixed amount for each CE project regardless of the number of examinations scheduled. Therefore, to the extent possible, AZ-DDS should schedule the maximum number of examinations specified by the contracts.

Based on our review of a sample of 100 CE projects, we determined that AZ-DDS scheduled the maximum number of examinations for 59 of the projects. However, for 41 of the projects, AZ-DDS did not schedule the maximum number of appointments. For these 41 projects, AZ-DDS could have scheduled up to 255 CEs; however, it only scheduled 163 (64 percent). Had the additional 92 CEs been scheduled, AZ-DDS would have saved approximately \$15,700 in CE costs. Based on our sample results, we estimate that AZ-DDS could have saved \$334,410 in CEs (see Appendix C).

According to SSA policy, State agencies are expected to exercise reasonable care in expending funds required for making SSA disability determinations. These funds must be effectively and economically used in carrying out the provisions of the disability

⁶ A CE project is a group of examinations CE providers were contracted to perform at remote locations or locally on weekends. CE projects were about 50 percent of all CEs payments.

⁷ SSA, POMS, DI 39545.275.

program.⁸ Our review disclosed that AZ-DDS did not always ensure it scheduled the maximum number of appointments allowed by the contracts. AZ-DDS staff agreed that CE project schedules were not always reviewed to ensure all appointments were filled.

CE PAYMENTS IN EXCESS OF THE MAXIMUM ALLOWABLE RATE

AZ-DDS improperly paid medical providers \$134,506 for CEs in excess of the maximum rates paid by Federal or other agencies in the State. We compared AZ-DDS' CE payments to the Medicare, Industrial Commission of Arizona, and Arizona Health Care Cost Containment System fee schedules and determined the maximum rate allowed under Federal regulations. As depicted in the table below, AZ-DDS' payments to medical providers exceeded the allowable maximum rate for 6,426 CEs. Payments for these CEs totaled \$541,615; however, the allowable payments were limited to \$407,109.

FY	Medical Services	Actual Payments	Maximum Payments	Improper Payments
2006	5,067	\$402,874	\$308,421	\$94,453
2007	1,359	\$138,741	\$98,688	\$40,053
Total	6,426	\$541,615	\$407,109	\$134,506

Federal regulations require that each State determine the payment rates for Medical services necessary to make disability determinations. The rates may not exceed the highest rate paid by Federal or other agencies in the State for the same or similar type of service.⁹ The State is responsible for monitoring and overseeing the rates of payment for Medical services to ensure the rates do not exceed the highest rate paid by the Federal or other State agencies.¹⁰

AZ-DDS staff stated that examinations conducted in hospitals had previously been subject to hospital fees in addition to standard rates, but it continued to pay hospital fees after they were no longer applicable. AZ-DDS indicated that it discontinued paying hospital fees in August 2009. In addition, AZ-DDS staff stated that some medical providers in rural areas were unwilling to accept the highest rate allowed. However, if AZ-DDS has difficulty obtaining specific examinations or tests, it is required to submit a written waiver request to the SSA RO. As such, AZ-DDS should work with SSA to determine whether it was necessary to exceed the highest allowable fees.¹¹ If SSA

⁸ SSA, POMS, DI 39506.001B.1.

⁹ 20 C.F.R. §§ 404.1624 and 416.1024.

¹⁰ 20 C.F.R. §§ 404.1519k(c) and 416.919k(c).

¹¹ SSA, POMS, DI 39545.625B.4, DI 39545.625B.1 and DI 39545.625B.2.

determines it was not necessary, SSA should consider appropriate action, such as instructing AZ-DDS to refund the excess CE payments and limit future CE payment rates.

REIMBURSEMENT FOR NON-SSA WORK

We found that AZ-DDS incorrectly charged medical expenditures, totaling \$29,805, for Arizona Long Term Care System (ALTCS) applicants to SSA's programs. AZ-DDS performs disability determinations for ALTCS applicants. While reviewing AZ-DDS medical costs, we found that AZ-DDS improperly charged CE and medical records expenses for ALTCS applicants to SSA. This occurred because AZ-DDS did not always verify whether medical costs were for ALTCS applicants before processing payment for medical invoices. As a result, SSA reimbursed AZ-DDS for unallowable medical costs applicable to non-SSA work. AZ-DDS agreed to improve controls to ensure medical costs for non-SSA work are charged to the correct fund.

According to SSA policy, if the DDS receives a request to make disability determinations for claims not related to SSA's programs, the requesting agency bears the responsibility for the funding and staffing related to the non-SSA program work.¹²

UNLIQUIDATED OBLIGATIONS

We found that AZ-DDS overestimated unliquidated obligations and did not review unliquidated obligations timely to properly deobligate funds that were no longer needed. As a result, AZ-DDS overstated unliquidated obligations by about \$1.8 million for FY 2006. Since AZ-DDS did not remove the unliquidated obligations until after the end of the FY, SSA was unable to redirect these funds for other purposes. At the end of FY 2006, AZ-DDS' estimated total unliquidated obligations were about \$3.5 million. However, the valid unliquidated obligations should have only been about \$1.7 million. As shown in the table below, the over-obligated funds consisted of Personnel, Medical, Indirect, and All Other Non-Personnel costs.

FY 2006 Overstated Unliquidated Obligations	
Personnel Costs	\$886,885
Medical Costs	\$467,871
Indirect Costs	\$33,551
All Other Non-Personnel Costs	\$460,024
Total	\$1,848,331

¹² SSA, POMS, DI 39518.040A.

According to AZ-DDS staff, it overestimated the unliquidated obligations and did not review them monthly to determine whether they were valid. As a result, obligated funds that were no longer needed were not canceled, and necessary corrections were not reported to SSA timely. We reviewed the unliquidated obligation balance as of June 2009 and found that AZ-DDS took corrective actions to reduce them to zero.

According to SSA policy, valid unliquidated obligations should be supported by documents and records describing the nature of the obligations and supporting the amounts recorded. SSA policy further indicates that State agencies should review unliquidated obligations at least once each month and cancel those that are no longer valid.¹³

IMPROPER ALLOCATION OF STATE-WIDE INDIRECT COSTS

We found that SSA reimbursed AZ-DES \$10,205 of unallowable indirect costs from July 2006 through June 2007. According to AZ-DES personnel, this occurred because adjustments to the estimated State-wide costs were not made after the actual costs were approved. As a result, AZ-DES improperly charged State-wide Indirect Costs to SSA's programs. We also found that AZ-DES undercharged SSA indirect costs of \$16,365 from July 2007 through June 2008. This occurred because AZ-DES incorrectly applied the prior year rate to allocate current year State-wide Indirect Costs.

Period	State-wide Indirect Costs Allocated	Approved State-wide Indirect Costs	Difference	Improper Allocation of Indirect Costs
July 2006 – June 2007	\$86,016	\$54,189	\$31,828	\$10,205
July 2007 – June 2008	\$54,189	\$103,472	(\$49,284)	(\$16,365)
Total	\$140,205	\$157,661	(\$17,456)	(\$6,160)

State-wide Indirect Costs are expenditures for services that benefit all departments in the State, including accounting, budgeting, and payroll from the Arizona General Accounting Office and State Treasurers. A State-wide Indirect Cost pool is used to allocate an equitable share of State-wide costs to all programs that benefit from these services. At the beginning of each State FY, AZ-DES uses an interim rate or prior year rate until a final rate for State-wide Indirect Costs is approved. SSA has no authority to reimburse States for the costs of central services unless such costs are included in an approved State-wide Cost Allocation Plan.¹⁴

¹³ SSA, POMS DI 39506.203A.

¹⁴ SSA, POMS, DI 39506.300.B.2.d.

Our review found that AZ-DES needed to improve its controls to prevent any future incorrect allocations. AZ-DES agreed to correct these errors and make adjustments in a timely manner as soon as the approved rates become available.

RISK OF UNAUTHORIZED ACCESS TO SENSITIVE INFORMATION

Our review disclosed that AZ-DDS lacked physical security controls over personally identifiable information (PII) and the distribution of the office access key code at the AZ-DDS office in Phoenix. We found that AZ-DDS did not keep sensitive records secured when cleaning services were provided during non-work hours or when claimants and medical providers were in the DDS office for CEs conducted on weekends. AZ-DDS did not practice a clean-desk policy, and shredding bins and office cabinets containing sensitive information were unlocked when there was no authorized individual present. AZ-DDS also did not limit the distribution of the office access key code to only those individuals who needed them. These weaknesses increased the risk of unauthorized access and loss of sensitive information.

According to SSA policy, if office cleaning is not performed during work hours, the DDS must take extra care to ensure documents containing PII are secured overnight,¹⁵ and the DDS should implement a clean-desk policy.¹⁶ Sensitive records awaiting destruction should be secured in locked bins or secured by other means to make the data unattainable to unauthorized personnel.¹⁷ Finally, possession of office keys should be limited to those individuals who must have them.¹⁸

AZ-DDS agreed to take corrective actions to ensure sensitive documents are secured overnight and to limit the distribution of the office access key code to only those individuals who need them.

CONCLUSION AND RECOMMENDATIONS

We found the costs claimed by AZ-DDS were generally allowable and funds were properly drawn. However, AZ-DDS needed to improve controls over the (1) payment for missed CE appointments, (2) scheduling of CE appointments at remote locations or locally on weekends, (3) payment of CE fees in excess of the maximum allowable rates, (4) payment for non-SSA work, (5) overestimates and timely review of unliquidated obligations, and (6) allocation of State-wide indirect costs. Finally, AZ-DDS needed to improve controls to adequately protect sensitive information.

¹⁵ SSA, POMS, DI 39567.040C.

¹⁶ SSA, POMS, DI 39567.020A or DI 39567.220A.

¹⁷ SSA, POMS, DI 39567.020C.

¹⁸ SSA, POMS, DI 39567.040A.1.

We recommend that SSA:

1. Instruct AZ-DDS to refund \$563,812 in unallowable costs paid to medical providers for missed CE appointments or request an exemption to the no-pay policy.
2. Ensure AZ-DDS schedules the maximum number of CEs, to the extent possible, in accordance with the contract; or modify its contract to pay medical providers based on the actual number of CEs scheduled.
3. Determine whether it was necessary for AZ-DDS to exceed the highest allowable rates to obtain CE services. If SSA determines it was not necessary, SSA should consider appropriate action, such as instructing AZ-DDS to refund \$134,506 in excess CE payments and limit future CE payment rates.
4. Instruct AZ-DDS to refund \$29,805 in unallowable costs for non-SSA work performed by AZ-DDS.
5. Ensure AZ-DDS improves controls over its estimates of unliquidated obligations.
6. Ensure AZ-DDS monitors and properly adjusts unliquidated obligations timely.
7. Ensure AZ-DES improves controls over the allocation of State-wide Indirect Costs.
8. Ensure AZ-DDS implements a clean-desk policy, keeps all sensitive documents secure, and limits the distribution of access key codes to only those individuals who need them.

AGENCY COMMENTS

SSA agreed with all our recommendations. AZ-DES agreed with Recommendations 3 through 8 and disagreed with Recommendations 1 and 2. However, AZ-DES stated it is willing to work with SSA to resolve Recommendation 1. In response to Recommendation 2, AZ-DES stated that it was exercising reasonable care when expending funds for CE appointments.

See Appendices D and E for the full text of SSA's and AZ-DES' comments.

OTHER MATTERS

MEDICAL CONSULTANTS' CONVERSION FROM CONTRACTORS TO EMPLOYEES

AZ-DDS medical consultants (MC) review, evaluate, and interpret claimant medical records and work with the disability examiners to make disability determinations. In December 2000, nine AZ-DDS MCs who were contractors petitioned the Internal Revenue Service (IRS) to determine their employment status for Federal employment tax purposes. Based on the information that was presented to the IRS for the nine MCs, the IRS determined that MCs should be AZ-DDS employees because AZ-DDS retained the right to direct and control their services performed. Subsequently, AZ-DDS questioned whether its MCs needed to comply with Arizona liability insurance requirements. According to AZ-DES staff, Arizona requires that all contractors who are licensed or certified have professional liability insurance to protect the State against losses that may occur if lawsuits are filed against the contractors. As a result of these two issues, in May 2005, all AZ-DDS contracted MCs were converted to employees.

AZ-DDS' decision to convert MCs from contractors to employees increased MC costs by approximately \$2.7 million. As shown in the following chart, MC salaries and related expenses in FYs 2006 and 2007 were approximately \$7.4 million compared to \$4.7 million we estimate would have been paid to MC contractors.

FY	Number of Cases Completed	Amount Paid to MCs as Employees	Amount Paid if MCs Were Contractors	Difference	Percent Increase
2006	58,835	\$3,114,844	\$1,941,555	\$1,173,289	60
2007	83,779	\$4,341,136	\$2,764,707	\$1,576,429	57
Total	142,614	\$7,455,980	\$4,706,262	\$2,749,718	58

We also found that SSA did not require that States obtain professional liability insurance for MCs who were contractors. According to SSA policy, the Federal government is responsible for defending court challenges to disability determinations and related procedures for making determinations. The State agency is not responsible for defending in court any disability determination made.¹⁹

Given the significant increase in MC costs, SSA should evaluate AZ-DDS' employment relationship with its MCs to ensure their services are provided in the most cost-effective manner. In response to our draft report, SSA stated that it has limited capacity to set State employment procedures. However, AZ-DES stated it is willing to work with SSA to determine if MCs can provide services in a more cost effective manner.

¹⁹ 20 CFR §§ 404.1615(g) and §§ 416.1015(h); see also SSA, POMS, DI 39518.050A and B.

PERFORMANCE PAYMENTS

All AZ-DDS employees received two types of performance payments in FYs 2006 and 2007. One was paid based on AZ-DES' performance, while the other was based on AZ-DDS' performance. Neither of the performance payments was based on individual employee performance. The total performance payments made to AZ-DDS employees was \$753,843.

Arizona law provides for performance payments of 2.5 to 2.75 percent of salaries to nearly all State employees.²⁰ The performance payments are distributed to each AZ-DES employee if AZ-DES meets or exceeds prescribed performance measures. In FYs 2006 and 2007, all AZ-DDS employees received the State-wide performance payment totaling \$382,780. Arizona also has a performance-based incentive program in which State agencies may participate.²¹ AZ-DDS implemented the Performance Incentive Pilot Program (PIPP) for all AZ-DDS employees to reward teams of employees based on increased team performance. All AZ-DDS employees received the same incentive payment amount. All AZ-DDS employees received the PIPP performance payment totaling \$371,063 for FYs 2006 and 2007.

According to Office of Management and Budget Circular A-87, Federal awards must be consistent with policies, regulations, and procedures that apply uniformly to Federal awards and other activities of the governmental unit.²² In addition, according to SSA's Monetary Awards policy, monetary awards are granted to SSA employees to recognize accomplishments of employees as individuals and as members of groups or teams.

²⁰ 2006 Ariz. ALS, 1 §§ 5 and 6 and 2007 Ariz. ALS, 255 § 109.

²¹ Arizona Revised Statutes § 38-618 (A).

²² Office of Management and Budget Circular A-87, Attachment A, Section C.1.e.

Cash awards are based on appraisals of individual performance and individual contributions to the group or team's achievement. Finally, only employees in good standing are eligible for monetary awards.²³ As such, SSA should consider developing policy for the reimbursement of performance payments to DDS employees.

A handwritten signature in black ink, appearing to read "Patrick P. O'Carroll, Jr."

Patrick P. O'Carroll, Jr.

²³ Office of Labor Management and Employee Relations 2005 SSA/AFGE National Agreement Article 17.

Appendices

[**APPENDIX A**](#) – Acronyms

[**APPENDIX B**](#) – Scope and Methodology

[**APPENDIX C**](#) – Sampling Methodology, Results, and Estimates

[**APPENDIX D**](#) – Social Security Administration Comments

[**APPENDIX E**](#) – Arizona Department of Economic Security Comments

[**APPENDIX F**](#) – OIG Contacts and Staff Acknowledgments

Appendix A

Acronyms

Act	<i>Social Security Act</i>
ALTCS	Arizona Long Term Care System
Ariz. ALS	Arizona Advance Legislative Service
AZ-DDS	Arizona Disability Determination Services
AZ-DES	Arizona Department of Economic Security
CE	Consultative Examination
C.F.R	Code of Federal Regulations
DDS	Disability Determination Services
DI	Disability Insurance
Form SSA-4513	State Agency Report of Obligations for SSA Disability Programs
FY	Fiscal Year
IRS	Internal Revenue Service
MC	Medical Consultant
ODD	Office of Disability Determinations
PII	Personally Identifiable Information
PIPP	Performance Incentive Pilot Program
POMS	Program Operations Manual System
Pub. L. No.	Public Law Number
RO	Regional Office
SSA	Social Security Administration
SSI	Supplemental Security Income
Treasury	Department of the Treasury
U.S.C.	United States Code

Scope and Methodology

We reviewed the administrative costs reported to the Social Security Administration (SSA) by the Arizona Disability Determination Services (AZ-DDS) on the *State Agency Report of Obligations for SSA Disability Programs* (Form SSA-4513) for Federal Fiscal Years (FY) 2006 and 2007. As of September 30, 2007, AZ-DDS reported the following disbursements and unliquidated obligations on its Forms SSA-4513.

Category	FY 2006	FY 2007
Disbursements		
Personnel Costs	\$13,589,648	\$15,029,741
Medical Costs	6,950,581	7,327,190
Indirect Costs	1,236,325	1,257,208
All Other Non Personnel Costs	2,246,681	2,400,011
Total Disbursements	\$24,023,235	\$26,014,150
Unliquidated Obligations	340,478	1,746,398
Total Obligations	\$24,363,713	\$27,760,548

To accomplish our objective, we:

- Reviewed applicable Federal laws and regulations, pertinent sections of SSA's Program Operations Manual System, and other criteria relevant to security controls, administrative costs claimed by AZ-DDS, and drawdowns of SSA program funds.
- Reviewed State laws, regulations, and policies pertinent to performance pay.
- Interviewed employees from the SSA regional office, AZ-DDS, and Arizona Department of Economic Security (AZ-DES).
- Reviewed the Single Audit Reports for the State of Arizona related to the 2-year period October 1, 2005 through September 30, 2007.
- Obtained an understanding of the internal control structure to plan the audit and determine the nature, timing, and extent of the tests to be performed.
- Obtained data from AZ-DES to support amounts reported on the SSA-4513 and tested the reliability of the data by comparing disbursements, by line item totals, with the amounts reported on the SSA-4513.
- Reconciled the amount of Federal funds drawn for support of program operations to the allowable expenditures reported on the SSA-4513.

- Examined the administrative expenditures claimed by AZ-DDS for Personnel, Medical, Indirect, and All Other Non-Personnel Costs in FYs 2006 and 2007.
- Verified indirect costs for FYs 2006 and 2007 based on the approved indirect cost allocation plan.
- Conducted a limited examination of AZ-DDS' general security controls environment.

We determined the electronic data used in our audit were sufficiently reliable to achieve our audit objectives. We assessed the reliability of the electronic data by reconciling them with the costs claimed on the Form SSA-4513. We also conducted detailed audit testing on selected data elements from the electronic files.

We performed audit work at AZ-DDS and AZ-DES in Phoenix, Arizona, and the San Francisco Regional Office in Richmond, California. We conducted fieldwork between September 2008 and September 2009. We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

SAMPLING METHODOLOGY

Our sampling methodology included the three general areas of costs as reported on Form SSA-4513: (1) Personnel, (2) Medical, and (3) All Other Non-Personnel Costs. We obtained computerized data from AZ-DES and AZ-DDS for FYs 2006 and 2007 for statistical sampling.

Personnel Costs

We randomly selected 1 pay period in FY 2007 and reviewed a random sample of 50 personnel and all 50 medical consultants. We tested payroll records to ensure AZ-DDS accurately paid its employees and adequately supported these payments.

Medical Costs

We reviewed 100 medical cost items. Using a stratified random sample, we selected 50 batched medical payment records from each FY. Within each batch, we selected the first item listed on the batch. We distributed the sample items between medical evidence of record and consultative examinations based on the proportional distribution of the total medical costs for each year.

All Other Non-Personnel Costs

We selected 100 All Other Non-Personnel Cost items. Using a stratified random sample, we selected 50 batched payment records for each FY. Within each batch, we selected the first invoice payment to review. Before selecting the sample items, we sorted the transactions into the following categories: (1) Contracted Costs, (2) Electronic Data Processing Maintenance, (3) Equipment Purchases, (4) Communication, (5) Applicant Travel, (6) AZ-DDS Travel, (7) Supplies, and (8) Miscellaneous. We then distributed the sample items between categories based on the proportional distribution of the total Non-Personnel costs for each year.

Appendix C

Sampling Methodology, Results, and Estimates

CONSULTATIVE EXAMINATIONS

We obtained a data file from Arizona Disability Determination Services (AZ-DDS) containing consultative examinations (CE) for contracted CE providers who travel to remote locations or worked locally on weekends to perform a group of examinations (CE projects). These CE projects accounted for \$5,919,610, or 50 percent, of the \$11,836,908 paid to CE providers for CEs conducted from October 1, 2005 through September 30, 2007. From this file, we identified a population of 2,130 CE projects likely to have contained errors. The payments made to CE providers for the 2,130 projects were approximately \$2.7 million.

We randomly selected 100 CE projects for review. For each sampled item, we reviewed supporting documentation to ensure the amount paid to the CE providers agreed with the contract terms and determined the number of missed and unscheduled appointments. Finally, using the supporting documentation, we calculated the cost of the missed and unscheduled appointments.¹ The following tables provide details of our sample results and statistical projections.

Table 1: Population and Sample Size	Number
Population Size	2,130
Sample Size	100

Table 2: Missed Appointments	Number	Amount
Sample Results	88	\$26,470
Point Estimate	1,874	\$563,812
Projection - Lower Limit	1,735	\$502,877
Projection - Upper Limit	1,977	\$624,747

Note: All projections are at the 90-percent confidence level.

Table 3: Unscheduled Appointments	Number	Amount
Sample Results	41	\$15,700
Point Estimate	873	\$334,410
Projection - Lower Limit	701	\$258,364
Projection - Upper Limit	1,054	\$410,456

Note: All projections are at the 90-percent confidence level.

¹ A CE project could have at least one missed and one unscheduled appointment.

Appendix D

Social Security Administration Comments



SOCIAL SECURITY

MEMORANDUM

Date:

Refer To: S2D9G4

To: Inspector General

From: Regional Commissioner
San Francisco

Subject: Audit of Administrative Costs Claimed by the Arizona Disability Determination Services (A-09-09-19020)--REPLY

Thank you for the opportunity to review the draft report of your audit of the Arizona Disability Determination Services. Per your request, we are providing an attachment with specific written comments for each of the eight recommendations contained in the draft report.

We appreciate the work performed by the OIG staff in this region. They display consistent dedication to improving the fiscal efficiency of our DDSs.

If you have any questions regarding our comments, please call me. If your staff have any questions, they may call Gus Villalobos in the Center for Disability at (510) 970-8297.

A handwritten signature in black ink, appearing to read "Peter D. Spencer".

Peter D. Spencer

Attachment

Regional Office Comments on the Arizona DDS Draft Audit Report

Recommendation 1: Instruct AZ-DDS to refund \$563,812 in unallowable costs paid to medical providers for missed CE appointments or request an exemption to the no-pay policy.

Comment: We will seek an exemption to the no-pay policy and ensure the DDS is doing what they reasonably can to avoid missed CE appointments. We generally support the remote CE vendor process used by the AZ DDS because it saves the cost of applicant travel and it provides excellent customer service to AZ's most vulnerable residents.

Recommendation 2: Ensure AZ-DDS schedules the maximum number of CEs, to the extent possible, in accordance with the contract; or modify its contract to pay medical providers based on the actual number of CEs scheduled.

Comment: We agree with the recommendation that the AZ DDS maximize CE scheduling with providers traveling to remote locations, ensuring all CE projects' appointments are thoroughly reviewed. We would like to see the State response before deciding on a reasonable resolution, but we also want to avoid creating a policy that results in the DDS delaying claims until the maximum number of CEs is scheduled.

Recommendation 3: Determine whether it was necessary for AZ-DDS to exceed the highest allowable rates to obtain CE services. If SSA determines it was not necessary, SSA should consider appropriate action, such as instructing AZ-DDS to refund \$134,506 in excess CE payments and limit future CE payment rates.

Comment: We agree with the auditor finding that the AZ DDS should not exceed maximum allowable rates for CE services. We would like to see the State response before deciding on a reasonable resolution to the finding.

Recommendation 4: Instruct AZ-DDS to refund \$29,805 in unallowable costs for non-SSA work performed by AZ-DDS.

Comment: We agree with this recommendation:

Recommendation 5: Ensure AZ-DDS improves controls over its estimates of unliquidated obligations.

Comment: We agree with this recommendation.

Recommendation 6: Ensure AZ-DDS monitors and properly adjusts unliquidated obligations timely.

Comment: We agree with this recommendation.

Recommendation 7: Ensure AZ-DES improves controls over the allocation of State-wide Indirect Costs.

Comment: We agree with this recommendation.

Recommendation 8: Ensure AZ-DDS implements a clean-desk policy, keeps all sensitive documents secure, and limits the distribution of access key codes to only those individuals who need them.

Comment: We agree with this recommendation.

Other Matters

Medical Consultants' Conversion from Contractors to Employees

Comment: We understand the intent of this finding requesting SSA evaluate the AZ DDS employment relationship with its MCs is based on ensuring their services are provided in a cost-effective manner. However, the decision to convert the MCs to State employees resulted from a State-directed decision based on Arizona procurement regulations. As a matter of the Federal/State relationship, it is the State's responsibility to ensure qualified personnel and oversee their compensation (see POMS DI 39518.005). Because SSA has limited capacity to set State employment procedures, we request this issue be omitted from the final report.

Performance Payments

Comment: The Arizona Department of Economic Security (DES) applies Department-wide performance pay to employees based on Agency performance standards. While the PESOS program in the AZ DDS is tailored to specific DDS performance measures, it is not paid in addition to the DES performance pay program as suggested in the draft report. The monies paid to DDS employees are consistent with DES performance pay policies. SSA will review the DDSA PESOS program performance standards to ensure they are aligned with SSA DDS performance requirements.

Appendix E

Arizona Department of Economic Security Comments



Janice K. Brewer
Governor

Neal Young
Director

FEB 12 2010

Mr. Patrick P. O'Carroll, Jr.
Inspector General
Office of the Inspector General
Social Security Administration
6401 Security Boulevard/3-ME-2
Baltimore, Maryland 21235-0001

Dear Mr. O'Carroll:

This letter is in response to your memorandum dated January 15, 2010 regarding the audit of the Administrative Costs Claimed by the Arizona Disability Determination Services for federal fiscal years 2006 and 2007.

Thank you for providing the Department of Economic Security with the results of your audit and with recommendations which assist in our cooperative efforts. Our response to each of the recommendations and other matters discussed in the report are enclosed.

If you have questions, please contact Veronica Bossack, Assistant Director, Division of Benefits and Medical Eligibility at (602) 542-3596.

Sincerely,

Neal Young
Director

Enclosure

Department of Economic Security Responses to Audit Recommendations

1. Instruct Arizona Disability Determination Services Administration (DDSA) to refund \$563,812 in unallowable costs paid to medical providers for missed CE appointments or request an exemption to the no-pay policy.

Response

We disagree with the recommendation. The DDSA does not routinely pay for missed Consultative Examinations (CEs). In certain cases, Consultative Examinations (CEs) performed in remote locations or on weekends are combined and managed as special projects. A special project is intended to provide for a flat rate to be paid to the CE vendor irrespective of the number of claimants actually served. Special projects are used in rural areas because of the lack of physicians and the extensive travel costs that would otherwise be generated in those service areas. As a result of the scarcity of physicians in these remote areas, DDSA sets up a special project to send a physician from a metropolitan area to travel to a remote area to perform the examinations there.

Without special projects claimants in rural areas must travel relatively long distances to obtain necessary medical examination requested by DDSA, generating considerable travel costs. The claimant travel in these cases is also paid with SSA funding. Travel costs for rural claimants can range from \$200 - \$800 per examination, per claimant. DDSA manages these examinations as projects in an effort to produce a net savings from the avoidance of the significant travel reimbursement that would be provided to claimants examined on a per-case basis.

In addition to the cost savings, the DDSA has a responsibility to maintain a level of performance that meets published accuracy and processing time standards. These standards are currently set at 37 days for Title II and 43 days for Title XVI (See POMS DI 39557.001 and DI 39557.003). Weekend projects are scheduled when the CE appointments are beyond a target date and delayed appointments would negatively affect processing timeliness. In this way special projects are employed as a critical tool to meet processing time standards.

As always, the DDSA is open to direction from the Regional Office regarding this process. Special projects were also a subject in a 2003 audit where the issue considered was a different one. At the time the special projects were not challenged as not falling under an approved exemption. These services have been provided to claimants under special projects in the belief that special projects reduced the amount that would have been expended had claimants been required to travel. The DDSA is willing to work under an exemption or, alternatively, pay the applicant travel costs at the discretion of the Regional Office.

2. Ensure DDSA schedules the maximum number of CEs, to the extent possible, in accordance with the contract; or modify its contract to pay medical providers based on the actual number of CEs scheduled.

Response

We disagree with this recommendation. This recommendation relates again to the special projects discussed in response to the recommendation above. The AZ DDS strives to take reasonable care to fill the appointment schedule for special projects. Even if the schedules are fully booked, claimants sometimes do not appear for a scheduled appointment. Claimants living in remote areas in some cases do not have telephones or telephone service in their area. There are also other circumstances where a project day would not keep a full schedule, including instances where a claimant cancels an appointment too late to schedule another claimant, or situations where scheduling exceptions are made in consideration of processing time. Some of the projects are only scheduled once a month or once every other month. If the next project is not scheduled until 30 to 45 days in the future, the Professional Relations Officer will make a judgment call and not cancel the project.

In its summary of findings the auditors identified that “to the extent possible, AZ-DDS should schedule the maximum number of examinations specified by the contracts” (emphasis added), suggesting that the auditors acknowledge that circumstances are not necessarily within the control of the DDSA for appointments. In their calculation of potential cost savings the auditors gave no allowance for such anomalies. They calculated only the maximum savings as if DDSA could ensure full scheduling eliminate no-shows, and therefore should never have less claimants seen than the maximum number of appointments available. Further, there was no attempt to offset any amount for savings in client travel costs avoided.

For these reasons, achieving the goal of maximizing the appointment schedule in the manner the auditors suggest seems unrealistic. To the extent that it is reasonable, DDSA is exercising reasonable care and attempting to use prudent judgment in expending funds required for making SSA disability determinations.

- Determine whether it was necessary for DDSA to exceed the highest allowable rates to obtain CE services. If SSA determines it was not necessary, SSA should consider appropriate action, such as instructing DDSA to refund \$134,506 in excess CE payments and limit future CE payment rates.

Response

We are in compliance with this recommendation. The DDS was using a cost-to-charge ratio from Arizona's Medicaid agency (the Arizona Health Care Cost Containment System) when paying for services provided by hospitals. The DDS has removed this rate setting option from its fee schedule.

- Instruct DDSA to refund \$29,805 in unallowable costs for non-SSA work performed by DDSA.

Response

Expenditures for approximately 286 CE claims, a relatively small number, were funded incorrectly last fiscal year. A process of consistently charging the Arizona Health Care Cost Containment System (AHCCCS), Arizona's Medicaid agency, for the Consultative

Examinations has been implemented. Activity for cases that do not involve an SSA claim is being correctly funded by AHCCCS.

5. Ensure DDSA improves controls over its estimates of unliquidated obligations.

Response

For fiscal year 2006, estimated unliquidated obligations for the year were over-reported at year end and were not revised timely to ensure the availability of the authority to the SSA to redirect the funds. The DDS has been mindful of this problem since that time, and has been working with the Regional Office to ensure that this problem is not repeated. In subsequent years there has not been any issue of significance concerning unliquidated obligations or the de-obligation of grant authority at year end.

6. Ensure DDSA monitors and properly adjusts unliquidated obligations timely.

Response

See response to number 5.

7. Ensure DDSA improves controls over the allocation of State-wide Indirect Costs.

Response

We agree with this recommendation. Statewide indirect costs could not be properly allocated during state fiscal year 2007 and state fiscal year 2008. As a result, SSA reimbursed the Department of Economic Security \$10,205 of unallowable indirect costs from July 2006 through June 2007. In addition, SSA did not reimburse DES the allowable indirect costs of \$16,365 from July 2007 through June 2008. The combined errors resulted in the amount of \$6,160 due from SSA to DES.

Statewide indirect costs are expenditures for services that benefit all state agencies. These costs are calculated by the Arizona Department of Administration's General Accounting Office (GAO) and included in the Statewide Cost Allocation Plan (SWCAP) which is approved by the Federal Division of Cost Allocation (DCA) on an annual basis. DES allocates these costs monthly to the benefiting programs (all programs administered by the Department) based on the agency-wide modified total direct cost percentage.

Prior to the state fiscal year 2007 SWCAP GAO had always received an approval from DCA prior to the first-quarter allocations. In SFY 2007 GAO provided DES with an interim statewide indirect cost rate because the SWCAP approval had been delayed. As a result of this and similar delays in all subsequent years, DES has requested that GAO submit the annual SWCAP to DCA in a more timely fashion and has also requested that DCA expedite the approval process. In addition, DES will make appropriate correcting entries when statewide indirect cost rate entries are made for the third quarter of SFY 2010. In the future DES will ensure that adjusting entries are made in the quarter immediately following the receipt of the approved SWCAP rate.

8. Ensure DDSA implements a clean-desk policy, keeps all sensitive documents secure, and limits the distribution of access key codes to only those individuals who need them.

Response

We agree with this finding. The DDSA has taken corrective action to control security over personally identifiable information (PII) and the distribution of the office access key code. The CE vendors who perform examinations in the office will not be given the access code. When a CE project is scheduled in the DDSA, staff will be notified in advance to ensure sensitive information is secured in cabinets or drawers.

Shred bins are locked and are only open for short periods of time (10 minutes) for staff to empty baskets of confidential information. When the bins are unlocked, they are monitored by the Operations Manager.

OTHER MATTERS

MEDICAL CONSULTANTS' CONVERSION FROM CONTRACTORS TO EMPLOYEES

DDSA medical consultants (MC) review, evaluate, and interpret claimant medical records and work with the disability examiners to make disability determinations. In December 2000, nine DDSA MCs who were contractors petitioned the Internal Revenue Service (IRS) to determine their employment status for Federal employment tax purposes. Based on the information that was presented to the IRS for the nine MCs, the IRS determined that MCs should be DDSA employees because DDSA retained the right to direct and control their services performed. Given the significant increase in MC costs, SSA should evaluate DDSA's employment relationship with its MCs to ensure their services are provided in the most cost-effective manner.

Response

An IRS opinion provided that medical consultants as used under these circumstances should be treated as employees. The state's Attorney General's office corresponded with the IRS on the issue and the response from IRS was not favorable. As a result, even if insurance requirements had not been an issue, the DDSA would have been obliged to convert medical consultants to employee status. It is true that that "SSA did not require that States obtain professional liability insurance for Medical Consultants who were contractors." However, the DDS must contract through the State of Arizona, which requires insurance for all contractors. The SSA can evaluate AZ-DDS' employment relationship with its Medical Consultants, however care must be taken that any resolution of the problem takes into account Arizona's insurance requirements for state contractors.

DDSA is open to a better solution and is willing to work with SSA to determine if there is a way to provide these services in a more cost effective manner while complying with IRS requirements and state procurement regulations.

PERFORMANCE PAYMENTS

All DDSA employees received two types of performance payments in FYs 2006 and 2007. One was paid to nearly all State employees, while the other was paid only to DDSA employees. Both performance payments were based on the agency's performance, not on individual employee performance. The total performance payments made to DDSA employees was \$753,843.

Response

The performance pay provided by the state is based on the agency meeting certain measures that indicate that the agency maintains certain minimum performance commitments. This requirement is in state law and is not at the discretion of the DDS or the state agency.

The performance pay provided by the PESOS program within DDSA is based on DDSA performance against standards derived from local and national averages. Therefore, from the perspective of the DDS, the statement in the findings that "Both performance payments were based on the agency's performance" is incorrect. The DDS performance bonus is based on separate performance standards unique to the DDS and continues to be implemented as was approved by SSA on January 29, 2001.

Appendix F

OIG Contacts and Staff Acknowledgments

OIG Contacts

James J. Klein, Director, San Francisco Audit Division

Joseph Robleto, Audit Manager

Acknowledgments

In addition to those named above:

Vickie Choy, Auditor-in-Charge

Manfei Lau, Senior Auditor

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