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December 13, 2013

John W. Thayer, Chairman  
Board of Supervisors  
Montgomery County  
County Annex Building  
PO Box 1500  
20 Park Street  
Fonda, NY 12068

Report Number: S9-13-17

Dear Mr. Thayer and Members of the County Board of Supervisors:

A top priority of the Office of the State Comptroller is to help officials manage their resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard public assets.

In accordance with these goals, we conducted an audit of seven counties throughout New York State. The objective of our audit was to determine if the counties are maximizing the reimbursement of costs related to the administration of social services programs. We included Montgomery County (County) in this audit. Within the scope of this audit, we examined the policies and procedures of the County and reviewed expenditures for social services programs that are eligible for Federal and State reimbursement for the period January 1, 2011 through December 31, 2012.

This report of examination letter contains our findings and recommendations specific to the County. We discussed the findings and recommendations with County officials and considered their comments, which appear in Appendix A, in preparing this report. County officials generally disagreed with our report. Appendix B includes our comments on issues raised in the County's response. At the completion of our audit of the seven counties, we prepared a global report that summarizes the significant issues we identified at all the units audited.

## **Summary of Findings**

We found that the County did not maximize its Federal and State reimbursement of social services costs. Specifically, the County did not seek reimbursement on about \$135,700 of its costs, potentially representing about \$101,775 in additional County revenue. We also identified inconsistencies in the methods used by various County departments to bill the Montgomery County Department of Social Services (MCDSS) for direct services. These inconsistencies resulted in underbillings for direct services and ultimately affected the Federal and State reimbursements to the County for such services.

## **Background and Methodology**

The County is located on the north bank of the Mohawk River in upstate New York and has a population of about 50,200. The County's 2013 general fund budget totaled \$80.4 million.

The MCDSS administers social services programs within the County, such as temporary assistance, day care, employment and training, Medicaid, protective services for children and adults, foster care, adoption programs and child support. Various New York State agencies supervise the County's administration of these programs. MCDSS expenditures in 2012 totaled \$26.9 million or 33 percent of the County's 2012 general fund budget.

The Federal government generally reimburses counties for 50 percent of the indirect costs they incur delivering services to, or for, the local department of social services (DSS). To receive these reimbursements, the County is required to prepare an annual Indirect Cost Allocation Plan (Plan) that lists each department individually and includes information that justifies the reimbursable costs. The allocation basis used for each cost center must be reasonable, consistent and equitable. The County contracts annually for the preparation of its Plan, which is the basis for claims submitted to the New York State Office of Temporary and Disability Assistance for reimbursement of the indirect costs.

In addition to costs incurred within the MCDSS, other expenditures (direct charges), incurred by other County departments can be allocated to the MCDSS. Federal and State regulations permit the reimbursement of interdepartmental services directly billed to the MCDSS. Direct costs are those that can be identified specifically with a particular DSS-related cost code. Typical reimbursable direct costs are compensation of employees for the time spent and costs of materials acquired, consumed or expended as they relate to the social services programs. These costs can be substantial and are eligible for Federal and State reimbursement through the Plan or through direct billing of the MCDSS (and their ability to be charged-back as direct costs by the department incurring the costs).

Although most social services programs are 50 percent Federally funded, some exceed this level of funding. For example, program costs for the Home Energy Assistance Program (HEAP) are 100 percent Federally funded. State funding levels are generally 25 percent of expenditures, but this level can vary depending on special or legislated funding provisions for individual programs.

The Federal government issued the Office of Management and Budget Circular A-87 (Circular), *Cost Principles for State, Local, and Indian Tribal Governments*, to establish uniform principles and standards for determining allowable costs for Federal reimbursement. The circular identifies the major types of costs, classifies them as to allowability and mandates the development of an indirect cost allocation plan.

The MCDSS received direct billings from several County departments during our scope period, including:

- The Department of Transportation for transporting MCDSS clients,
- The Department of Public Works for rent, heat and other support services,
- The Sheriff's Department for subpoena delivery,
- The Informational Technology/Data Processing (IT/DP) Department for computer services,
- The Department of Public Health Local Early Intervention programs for infants and toddlers with disabilities and their families,
- The County Printing Department for printing services, and
- The Central Services Department for inter-office mailings.

The County submitted claims for reimbursement totaling \$1,482,140 in 2012 for social services administrative costs. Of this amount, direct billing claims totaled \$1,026,232 and indirect claims totaled \$455,908.

We examined the County's Plan for 2011 and 2012 and the operations of County departments furnishing both direct and indirect services to the MCDSS for the period January 1, 2011 through December 31, 2012.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). Such standards require that we plan and conduct our audit to adequately assess those County operations within our audit scope. Further, those standards require that we understand the County's management controls and those laws, rules and regulations that are relevant to the County's operations included in our scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in accounting and operating records and applying such other auditing procedures we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for the findings, conclusions and recommendations contained in this report. More information on such standards and the methodology used in performing this audit is included in Appendix C of this report.

## Audit Results

Direct Billing – To receive all reimbursements for applicable costs, County departments should bill all actual and appropriate expenditures incurred on behalf of the administration of social services programs. The MCDSS should have guidelines and procedures for the departments to follow when directly billing MCDSS for reimbursable services.

We reviewed<sup>1</sup> each County department that provided services to MCDSS and found the County could have submitted approximately \$135,700 in additional claims over the two-year period ending December 31, 2012, potentially generating up to \$101,775 in additional revenue for the County. These foregone amounts were the result of errors and the lack of a formal, consistent process being used by the various County departments for interdepartmental billing. The departments of IT/DP, Public Health, County Attorney, and Public Works underbilled the MCDSS for direct services provided. These departments did not use a standard billing process or did not routinely bill the MCDSS, therefore not capturing the County's share of applicable FICA, workers' compensation, retirement, disability and/or health insurance costs related to the direct services provided. For example:

- The IT/DP Department bills the MCDSS for computer services quarterly but the IT/DP Department billings were inconsistent; salary and benefits totaling about \$54,600 were not billed.
- The Department of Public Health's Early Intervention Program used historic time studies as the basis for determining reasonable percentages for calculating the administrative wages for applicable staff. However, Department of Public Health personnel did not include fringe benefit costs in these administrative wage calculations, resulting in approximately \$44,200 that was not submitted for reimbursement.
- The County Attorney's Office represents the County in legal matters and works with various departments, including the MCDSS, providing legal assistance and consultation on in-house matters. The County Attorney's Office, however, does not specifically track time spent by attorneys on these MCDSS-related activities. Based on discussions with the County Attorney, we determined that about \$24,900 could be billed back to the MCDSS for time spent on legal services.
- The Department of Public Works (DPW) bills MCDSS for phone, fuel, labor and materials monthly. The DPW, however, did not include several months of billings, resulting in approximately \$12,000 in underbillings.

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<sup>1</sup> To determine if costs were accurately billed back to the MCDSS, we reviewed vouchers, claims and department charge-backs to the MCDSS to ensure that all costs (e.g., salaries, fringe benefits and other applicable direct charges) were included in the departments' calculations. Where we determined that costs were lacking, we obtained additional cost information including payroll, workers' compensation, retirement, disability and/or health insurance records to recalculate costs.

The County should continually monitor and identify all related direct social services costs within departments and track these costs to maximize reimbursement. For example, the District Attorney's Office currently does not maintain detailed records of Supplemental Nutrition Assistance Program fraud prosecution costs, along with other pre-prosecution costs relating to social services programs. Maintaining such records may provide opportunities for additional reimbursement.

Indirect Cost Allocation – Indirect costs are those costs incurred for a common or joint purpose benefiting more than one cost objective, and not readily assignable to the cost objectives specifically benefited, without effort disproportionate to the results achieved. Most governmental units provide certain services, such as motor pools, computer centers, purchasing, accounting, etc., to operating agencies on a centralized basis. Because the County performs Federally supported activities at the local level, such indirect costs can be identified and assigned to benefited activities on a reasonable and consistent basis. The Plan provides that process. Formal accounting and other records should support the propriety of all indirect costs included in the Plan. The County annually contracts with a vendor to complete its Plan.

We compared the claims submitted for indirect cost reimbursement to the indirect costs per the approved Plans for the 2011 and 2012 fiscal years and found that the amounts submitted were accurate.

## **Recommendations**

1. The County should standardize the billing process from the various County departments to the MCDSS to accurately capture and bill the direct expenditures related to social services programs.
2. The County should periodically monitor the administrative costs of social services programs to ensure the County is maximizing its reimbursement.
3. The County Attorney should maintain a record of staff time spent on MCDSS-related legal services, and the County should calculate the costs of these services and apply for Federal reimbursement.
4. The District Attorney's Office should maintain a record of staff time spent on prosecution activities related to social services programs for which costs are Federally reimbursed, such as Supplemental Nutrition Assistance Program fraud. The County should calculate the costs of these services and apply for Federal reimbursement.

The Board of Supervisors has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board of Supervisors to make this plan available for public review in the Clerk's office.

Our office is available to assist you upon request. If you have any further questions, please contact Ann Singer, Chief of Statewide Audits, at (607) 721-8306.

Sincerely,

Gabriel F. Deyo

## **APPENDIX A**

### **RESPONSE FROM COUNTY OFFICIALS**

The County officials' response to this audit can be found on the following pages.



# Montgomery County Department of Social Services

BROADWAY, P.O. BOX 745 · FONDA, N.Y. 12068-0745 · PHONE (518) 853-4646 · FAX (518) 853-8223

**Michael McMahon**  
Commissioner

August 20, 2013

[REDACTED]  
Office of the State Comptroller  
Division of Local Government and School Accountability  
State Office Building, Room 409  
333 E. Washington Street  
Syracuse, NY 13202-1428

Dear [REDACTED]:

The Montgomery County Departments, noted in the recent Office of the State Comptroller Audit, have reviewed the findings of the July 11, 2013 audit of the administration of the social service programs for the period of January 1, 2011 through December 31, 2012. The audit resulted in four main areas of discrepancies. The following will serve as our response to the audit:

1. The Montgomery County Department Data Processing Department does not provide any technical services for the Montgomery County Department of Social Services (MCDSS) as the Department has a Micro-Technician on staff. In the current contract between the Data Processing and MCDSS, the salaries of the Micro-Computer Technicians, the Network Technicians, and the Director of Data Processing are used to solely determine an hourly rate for computer services. Page 11 of the contract outlines approximately five hours a month for administrative payroll, and three and a half hours for the processing of purchase orders. The IT services were not under-billed or under-claimed for reimbursement.
2. The Public Health Department's Early Intervention Program has gone through several changes over the last two years. Please see the response from the Montgomery County Public Health's Business Manager, as attached.
3. The Assistant County Attorney spends on average 30.3 hours a month on Juvenile Delinquent cases for MCDSS. After review of these cases, it has been determined that we will issue supplemental claims in the total amount of \$23,557.00 for the two year period.
4. Prior to July 2012, MCDSS had received billing and remitted payment each month to Montgomery County Public Works Department (MCDPW) for telephones, fuel, and labor/materials. However, an internal decision was made to change the MCDSS cell phone bill payment policy. Effective July 2012, MCDSS began paying and claiming the cellphone bill to maximize reimbursement. The audit is

See  
Note 1  
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accurate in stating MCDSS did not pay those bills prior to July 2012, and therefore did not claim the cellphone bills from January 2011 through June 2012. This resulted in approximately \$9,540.00 in under-billings.

See  
Note 4  
Page 10

Thank you for including Montgomery County in this informative audit. Your findings have been helpful to maximize reimbursements for Montgomery County. Please feel free to contact this office at any time.

Sincerely,

Tina Sweet  
Director of Financial Management

cc: John Thayer, Chairman  
Michael McMahon, Commissioner  
Debra Auriemma, Business Manager  
Daniel Colon, Director of Data Processing  
Douglas Landon, County Attorney

## **APPENDIX B**

### **OSC COMMENTS ON THE COUNTY'S RESPONSE**

#### **Note 1**

We used actual salary and fringe benefit costs for the named individuals to calculate the billable costs (as opposed to estimated contractual costs) and compared these amounts to the amounts billed by the IT/DP Department. We found the IT/DP Department was billing less than the actual amounts.

#### **Note 2**

The response from the Early Intervention Program (not included as an Appendix since it is our policy to include only one response letter from an audited local government) details the operational changes that occurred in the program over the past two years. The Public Health Department agrees with the findings as stated and plans to submit retroactive claims.

#### **Note 3**

We determined that both the County Attorney and the Assistant County Attorney spend time working on MCDSS-related matters. Actual salary and fringe benefit costs for both individuals set the cost at \$24,900 based on the time estimates provided by County officials. County officials did not provide support for their calculation of \$23,557; therefore, we were unable to analyze the \$1,343 difference.

#### **Note 4**

MCDSS officials did not provide us with additional information or supporting documentation to support their calculation of \$9,540; therefore, we were unable to analyze the \$2,460 difference in billing amounts.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we reviewed the operations of County departments furnishing both direct and indirect services to the MCDSS for the period January 1, 2011 through December 31, 2012. Specific areas addressed in our audit included the indirect cost claiming process, identification of reimbursable costs and direct billing optimization. We interviewed County officials, communicated with Plan administrators and reviewed the County's 2011 and 2012 Plans, annual financial reports and ledgers, budgets, payroll records, departments' direct billings for services, and other documents maintained by the County that were relevant to our audit.

Our procedures included the following:

- We reviewed the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, which established uniform principles and standards for determining allowable costs applicable to Federal grants, contracts, and other Federal agreements with local governments.
- We reviewed *Cost Principles and Procedures for Establishing Cost Allocation Plans and Indirect Cost Rates for Agreements with the Federal Government* (ASMB C-10), an implementation guide issued by the United States Department of Health and Human Services to assist state and local governments in applying OMB Circular A-87.
- We reviewed the *Fiscal Reference Manual*, a publication issued by the New York State Office of Temporary and Disability Assistance (OTDA) that interprets the Federal requirements and provides detailed guidance to local social services districts within the State for the financial administration of these programs.
- We reviewed relevant provisions of the Local Finance Law.
- We compared the County's financial records with its 2011 and 2012 Plans to verify the identification and inclusion of all material services chargeable to social services programs. We also verified that the amount of indirect costs claimed through the OTDA was consistent with the annual Plan amount.
- For County departments that directly bill the MCDSS for their services, we calculated the cost to these departments for providing the services and compared it with the related billings to the MCDSS.

Because central service department costs allocable to a county's DSS are generally eligible for a 50 percent share of costs on Federally participating programs, we applied a 50 percent Federal reimbursement rate when calculating estimates of Federal reimbursement for revenue enhancements and projections of this nature.

Other revenue enhancements and accelerations addressed in this report are considered MCDSS administrative costs and must be allocated to the various social services programs administered by the MCDSS. Because such costs are generally reimbursed at the 50 percent level by the Federal government and the 25 percent level by the State, we applied these percentages when calculating estimates of Federal and State reimbursement for revenue enhancements and accelerations of this nature.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). 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 objective. We believe that the evidence obtained provides reasonable basis for our findings and conclusions based on our audit objective.