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December 13, 2013

Joshua Potosek, Acting County Manager
Members of the County Legislature
Sullivan County Government Center
100 North Street, PO Box 5012
Monticello, NY 12701

Report Number: S9-13-14

Dear Mr. Potosek and Members of the County Legislature:

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 were maximizing the reimbursement of costs related to the administration of social services programs. We included Sullivan 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 agreed with our recommendations and indicated they planned to take corrective action. 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 for about \$288,800 of its costs, potentially losing about \$216,600 in additional County revenue. We also identified inconsistencies in the methods used by various County departments to bill the Sullivan County Department of Family Services (SCDFS) 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 85 miles northwest of New York City and has a population of about 77,500. The County's 2013 general fund budget totaled \$140 million.

The SCDFS 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. SCDFS expenditures totaled \$52.7 million, or 37 percent of the County's 2012 general fund budget.

In addition to the program costs incurred, 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 must 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.

Additional expenditures incurred by other County departments on behalf of SCDFS also can be reimbursable. Federal and State regulations permit the reimbursement of interdepartmental services directly billed to the SCDFS. These billed "direct costs" must 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 either through a Plan or by directly billing the SCDFS.

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 applicable 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 SCDFS received direct billings from several County departments during our scope period, including:

- The Sheriff's Department for security,
- The Division of Public Works for rent, heat, and other support services,
- The Department of Public Health Services for early intervention services for children,
- The County Attorney for representing the County in legal matters and serving as legal counsel,
- The District Attorney for pre-prosecution work,
- The Department of Community Services for mental health and drug and alcohol evaluations,
- The Department of Management Information Systems (MIS) for computer services, telephones, copiers and an MIS associate during our scope period,
- General Services for insurances and postage, and
- The Office of the Aging for assisting customers with heating bills through HEAP.

The County submitted claims for reimbursement totaling \$2,936,076 in 2012 for social services administrative costs. Of this amount, direct billing claims totaled \$2,207,364 and indirect claims totaled \$728,712.

We examined the County's Plan for 2011 and 2012 and the operations of County departments furnishing both direct and indirect services to the SCDFS 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 B of this report.

Audit Results

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

We reviewed¹ each County department that provided services to SCDFS and found the County could have submitted approximately \$288,800 in additional claims over the two-year period ending December 31, 2012, potentially generating up to \$216,600 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 various County departments for interdepartmental billing. The departments of Public Health, Community Services, Sheriff, Management Information Systems, Office of the Aging, County Attorney and Public Works underbilled the SCDFS for direct services provided. These departments did not use a standard billing process or did not routinely bill the SCDFS, 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 Department of Public Health Services (Health Department) used historic time studies as the basis for determining reasonable percentages to calculate the administrative wages for applicable staff. However, Health Department personnel did not include fringe benefit costs in the administrative wage calculations, as they were unaware they could do so, which resulted in approximately \$119,200 in costs that were not submitted for reimbursement. Additionally, although the Health Department routinely billed the SCDFS for personal-care evaluations, we determined SCDFS did not seek reimbursements for two months of invoices totaling approximately \$6,000.
- The Department of Management Information Systems (MIS) bills the SCDFS for computers, telephones, copiers and services of an employee. MIS submits quarterly billings to the SCDFS for the services of an associate who was dedicated entirely to SCDFS matters. Because the MIS billings were inconsistent, several months of salary and fringe benefit costs totaling about \$53,600 were not billed. In addition, despite MIS properly billing the SCDFS for six months, the SCDFS did not have a record of these billings even though they had been posted to the accounting records by the Treasurer's office. As a result, about \$36,800 was not claimed by the SCDFS for potential reimbursement.
- The County Attorney's Office represents the County in legal matters and works with various departments, including the SCDFS, to provide legal assistance and consultation on in-house matters. The County Attorney's Office, however, does not specifically track

¹ To determine if costs were accurately billed back to the SCDFS, we reviewed vouchers, claims and department charge-backs to the SCDFS 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.

time spent by attorneys on these SCDFS-related activities. Based on discussions with the County Attorney, we determined that about \$33,900 could be billed back to the SCDFS for time spent on legal services.

We identified other instances where the County did not maximize its reimbursement opportunities. For example:

- The Office of the Aging was billing the SCDFS a negotiated fixed amount of salary, averaging 28 percent, while actual billings equalled 39 percent. Potential underbillings of salary and fringe benefit costs totalled more than \$15,000.
- The Department of Community Services was behind on its billings to the SCDFS, dating as far back as 2010. While the Department of Community Services has since begun to catch up on billings, the oversight resulted in underbillings of over \$13,500 to the SCDFS.
- The Division of Public Works did not bill SCDFS for a month of direct billings totalling approximately \$6,900.
- The Sheriff's Department was appropriately billing salaries, but underbilled fringe benefit costs by \$3,900.

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 fraud prosecution costs related to the Supplemental Nutrition Assistance Program or other pre-prosecution costs relating to social services programs. Maintaining such records may provide opportunities for further 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 SCDFS to accurately capture and bill the direct expenditures related to social services programs.
2. The County should periodically monitor the administrative costs of the social services programs to ensure the County is maximizing its reimbursement.
3. The County Attorney should maintain a record of staff time spent on SCDFS-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 County Legislature 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 County Legislature 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.



SULLIVAN COUNTY LEGISLATURE
SULLIVAN COUNTY GOVERNMENT CENTER
100 NORTH STREET
PO BOX 5012
MONTICELLO, NY 12701
845-807-0435
845-807-0447 (fax)

August 12, 2013

[REDACTED]
Office of the State Comptroller
State Office Building, Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417

Dear [REDACTED]

Sullivan County Government appreciates the opportunity to respond to your draft report Number S9-13-14. The Comptroller's stated objective was, "...to determine if counties were maximizing the reimbursement costs related to the administration of social services programs." In your Summary of Findings (page 2), the report states that your office found that the County did not maximize its Federal and State reimbursements of social service costs.

On Friday, July 12th, 2013 County staff met with representatives from your office to review the draft report and discuss any concerns. I would like to note that certain costs included in the OSC audit report were processed to New York State as follows:

Community Services	Evaluations & Assessments - 2012	\$ 9,525	2/2013
Community Services	Evaluations & Assessments – 2011	\$ 3,950	4/2013
MIS	Computers	\$36,755	4/2013
MIS	2 Q12 Staff (retired in Oct.)	\$21,745	4/2013
PHN (correction)	PCA – 2 months	\$ 5,950	3/2013

Staff will discuss with the Legislature the development of a standardized billing process from various departments to Sullivan County Family Services. We will discuss this recommendation and the entirety of the report with the Legislature and begin the process of creating a corrective action plan for submission to your office.

In conclusion, I would like to thank you once again for the opportunity to comment on the draft report. I would also like to commend the staff of the New York State Comptroller's Office who conducted the field work for the professionalism and courtesy that they exhibited while working with County staff.

Sincerely,

Scott B. Samuelson, Chairman
Sullivan County Legislature

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To accomplish our objective, we reviewed the operations of County departments furnishing both direct and indirect services to the SCDFS 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 service 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 their 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 SCDFS for their services, we calculated the cost to these departments for providing the services and compared it with the related billings to the SCDFS.

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 SCDFS administrative costs and must be allocated to the various social services programs administered by the SCDFS. 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.