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December 13, 2013

Jay Gsell, County Manager
Members of the County Legislature
Genesee County
7 Main Street
Batavia, NY 14020

Report Number: S9-13-18

Dear Mr. Gsell 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 Genesee 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 \$30,436 of its costs, potentially losing up to \$22,827 in additional County revenue. In addition, we determined that the County overbilled approximately \$167,566 among various County departments resulting in inappropriate reimbursement. In total, over the two-year scope period, the County overbilled by approximately \$137,130 receiving \$102,848 in inappropriate reimbursement. We also identified inconsistencies in the methods used by the various County departments to bill the Genesee County Department of Social Services (GCDSS) for direct services. These inconsistencies resulted in both under- and overbillings for direct services, and ultimately affected the Federal and State reimbursements to the County for such services.

Background and Methodology

The County is located in western New York, covers approximately 500 square miles and has a population of about 60,000. The County's 2013 general fund budget totaled \$100.9 million.

The GCDSS administers social services programs within the County, such as Supplemental Nutrition Assistance, Temporary Assistance, Home Energy Assistance Program (HEAP), adult services, child/day care, child support, employment, protective services for children, Medicaid, foster care and adoption. Various New York State agencies supervise the County's administration of these programs. GCDSS expenditures totaled \$26 million, or 26 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 to receive reimbursement for the indirect costs.

Additional expenditures incurred by other County departments on behalf of GCDSS also can be reimbursable. Federal and State regulations permit the reimbursement of interdepartmental services directly billed to the GCDSS. 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 GCDSS.

Although most social service programs are 50 percent Federally funded, some exceed this level of funding. For example, program costs for 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 GCDSS received direct billings from several County departments during our scope period, including:

- The Sheriff's Office for security,
- The Probation Department for GCDSS clients under probation,
- The Public Health Department for early intervention services for children,
- The Veterans Service Agency for services to veterans,
- The Youth Bureau for preventative care for children involved in minor offenses, and
- The Office of the Aging for assisting clients with heating bills through HEAP.

The County submitted claims for reimbursement totaling \$2,081,340 in 2012 for social services administrative costs. Of this amount, direct billing claims totaled \$1,870,740 and indirect claims totaled \$210,600.

We examined the County's Plan for 2011 and 2012 and the operations of County departments furnishing both direct and indirect services to the GCDSS 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 GCDSS should have guidelines and procedures for the departments to follow when directly billing GCDSS for reimbursable services.

We reviewed¹ each County department that provided services to GCDSS and found the County could have submitted \$30,436² in additional claims over the two-year period ending December 31, 2012, potentially generating up to \$22,827 in additional revenue for the County. However, the County overbilled approximately \$167,566³ among various departments resulting in inappropriate reimbursements. In total, over the two-year scope period the County overbilled approximately \$137,130, receiving \$102,848 in inappropriate reimbursement. The inconsistent billings were the result of errors and the lack of a formal, consistent process being used by the various County departments for interdepartmental billing. The District Attorney's Office, Veterans' Service Office, Office for the Aging and Probation Department all underbilled the GCDSS for direct services provided. These departments did not use a standard billing process or did not routinely bill the GCDSS, 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. The underbillings occurred due to outdated calculations and the lack of a formal, consistent process. For example:

- The District Attorney's Office currently does not bill the GCDSS for GCDSS-related cases. However, officials from the District Attorney's Office estimated that approximately 10 percent of the Assistant District Attorney's time is spent on GCDSS-related cases, resulting in approximately \$18,300 that can be potentially reimbursed.
- The Veterans' Service Office (VSO) assists veterans with applying for social services benefits. GCDSS refers its veteran customers to the VSO for determinations of eligibility for social services benefits. The VSO underbilled the GCDSS by \$2,630 in 2011. This occurred because there was no formal mechanism in place to track the amount of time the VSO staff spent on GCDSS-related cases. In addition, County officials acknowledged that charging 100 percent for VSO services in 2011 may have been overly aggressive and have since began tracking and refining the tracking system in order to obtain a percentage that more closely resembles the GCDSS-allocable time for VSO services.
- The Office for the Aging bills GCDSS for HEAP services, adult protective services and assisting customers with GCDSS applications through the point-of-entry program. The Office for the Aging underbilled GCDSS by \$1,684 for the two-year period.
- The Probation Department deals exclusively with juvenile cases. The Probation Department tracks the salaries and fringe benefit costs for two employees and charges their total costs back to GCDSS. Although the Probation Department tracks the salaries and fringe benefit costs, we determined that approximately \$1,400 in costs were not submitted for reimbursement.

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

² This figure includes all net underbillings as some departments may have underbilled in one year and/or overbilled in another, resulting in a net underbilling.

³ This includes all net overbillings.

In addition, we identified several other departments, such as the Sheriff's Office, Public Health Department and Youth Bureau, where the County received more reimbursement than they were entitled to receive. For example:

- The Sheriff's Office was billing GCDSS a portion of salary and fringe benefit costs for two officers. In reviewing the calculations, we determined that the Sheriff's Office overbilled GCDSS in both 2011 and 2012 by more than \$155,000.
- The Public Health Department provides early intervention services for children and bills GCDSS a portion of the salary and fringe benefit costs incurred based on the percentage of children that are Medicaid eligible. We determined that over the course of the two-year audit scope period, the Public Health Department overbilled salary and fringe benefit costs by more than \$5,200.
- The Youth Bureau provides preventative services and services to juveniles involved in minor offenses. The Youth Bureau tracks the salaries and fringe benefit costs of its employees and charges their total costs back to GCDSS. In 2011, the Bureau overbilled GCDSS by approximately \$6,000 and in 2012 underbilled about \$4,700, resulting in a net overbilling of \$1,300.

The County should continually monitor and identify all related direct social service 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 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 GCDSS 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 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.

GENESEE COUNTY

JAY A. GSELL
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FRANK V. CIACCIA
Assistant County Manager
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COUNTY COURTHOUSE
7 Main Street
Batavia, New York 14020
(585) 344-2550 Ext. 2204
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August 12, 2013
RE: Report Number S9-13-18

Ann Singer, Chief Examiner
[REDACTED]
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, NY 13901-4417

Dear Ms. Singer and [REDACTED]:

This letter is to serve as Genesee County's response to the Comptroller's Audit Report Number S9-13-18. This response will also serve as the County's Corrective Action Plan (CAP) to address the audit findings/recommendations.

The objective of this audit was to determine if the County was maximizing the reimbursement of costs related to the administration of social services programs. The period under review was calendar years 2011 and 2012. The audit entrance conference was held on May 30, 2013 and the draft report was issued on July 24, 2013. Minor corrections were made by the OSC to that draft report, concluding with final figures on August 6, 2013.

The Summary of Findings section of the audit report noted inconsistencies in the methods used by various County departments to bill the Genesee County Department of Social Services for direct services. These inconsistencies resulted in both under and over-billing for direct services, and ultimately affected the Federal and State reimbursements to the County for such services. Genesee County agrees with that audit summary findings.

Specifically, the audit results pointed out that the District Attorney's office, the Probation Department, the Veteran's Service office, and the Office for Aging each under-billed DSS for their direct services during the 2 year period examined. The Sheriff's Department, the Public Health Department and the Youth Bureau each over-billed DSS for their direct services during the same time period.

With regard to indirect cost allocation, the audit found that the claims submitted for indirect cost reimbursement were accurate when compared to the approved Indirect Cost Allocation Plans for the district's 2011 and 2012 fiscal years. Genesee County agrees with that audit result.

For each recommendation included in the audit report, the following is our corrective action(s) taken or proposed:

- Audit Recommendation:**
The County should standardize the billing process from the various departments to the GCDSS to

accurately capture and bill the direct expenditures related to social services.

Genesee County agrees with this recommendation. With the exception of the District Attorney's office, the GCDSS currently maintains service agreements with each of the Departments listed above. In addition to outlining the services to be provided, the agreement establishes an amount that the Departments will be paid for provision of those services, based upon previous estimates of the salary/fringe benefits costs necessary to provide the services. This fee for services is generally paid out in monthly or quarterly installments throughout the County's fiscal year, and reimbursement claims are then submitted by GCDSS. The final payment to the Departments in any fiscal year in the future needs to be adjusted, based upon a reconciliation of the actual timesheets or time studies kept pertaining to the direct services rendered, and the actual costs for those services.

DSS officials will work with the payroll officials for each Department to insure that the necessary reconciliation takes place annually in an effort to prevent future over-billings or under-billings. This action will be implemented immediately. Further, the Commissioner of Social Services will periodically consult with each of the other Department Heads during each fiscal year, starting in 2014, to insure that timesheets and/or time studies are being done regularly to accurately reflect personnel and supervisory time charged to GCDSS.

An agreement for service will be developed between the District Attorney and the GCDSS by December 31, 2013 in order to routinely bill GCDSS for ADA services on behalf of GCDSS. An appropriation will be placed in the GCDSS 2014 budget recommendation to allow for payment of services, and to ensure all applicable expenditures are reimbursed. It is anticipated that the 2014 budget will be approved in November, 2013.

2. Audit Recommendation:

The County should periodically monitor the social services administrative costs to ensure the County is maximizing its reimbursement.

The County agrees with this recommendation, feels that such action has already occurred, and is committed to monitoring the social services administrative costs on an ongoing basis. As examples, in 2011, monitoring of the Sheriff's Departments billings resulted in significant changes to the service agreement to prevent overbillings in 2012. The Veteran's Service Department was moved into the GCDSS in late 2011 to minimize costs and maximize reimbursements. Monitoring of those costs and services resulted in a new service agreement being developed when Veteran's Services was separated from GCDSS in 2013, along with the establishment of a tracking mechanism to accurately determine the direct service costs and proper reimbursements. Periodically monitoring the social services administrative costs is the responsibility of the GCDSS Management Team, the Genesee County Manager, and the Human Services Committee of the Genesee County Legislature. Working together, we need to be continually attuned to the opportunities for maximizing our reimbursements at the same time that we insure that accurate records are maintained to justify those efforts. There is always room to improve our processes in this regard, and this plan will be implemented on an ongoing basis.

3. Audit Recommendation:

The District Attorney's Office should maintain a record of staff time spent on prosecution activities related to social services programs for which those costs are Federally reimbursed, such as intentional food stamp fraud. The County should calculate the costs of these services and apply for Federal reimbursement.

Genesee County agrees with this recommendation. Prior to this audit, this action had not been considered by the County. However, we have already commenced discussions between the GCDSS and the District Attorney's office in order to implement the recommendation. It was estimated anecdotally that up to 10% of an Assistant District Attorney's time may have been billable and reimbursable during 2011 and 2012 for direct services to GCDSS. However, the County lacks formal documentation of that, and currently no service agreement exists in order for the DA's office to accurately bill for services.

For 2014, there will be an appropriation in the GCDSS budget for direct services by the District Attorney's office so that all applicable expenditures can be reimbursed. The agreement for services will be completed by December 31, 2013. The District Attorney's office will record and monitor staff time spent on prosecution activities related to social services programs. The GCDSS will review any data provided to accurately identify costs that can be submitted for State and Federal reimbursement, and will follow through with that claiming. By the end of 2014, this billing process will become standardized in the same manner outlined in #1 above.

As previously indicated, this letter is our formal response to the audit, and is also serving as the Corrective Action Plan. No CAP will be submitted under separate cover at this time.

Thank you for the opportunity to respond to the audit. The Comptroller's Office has given us valuable input to improve our local operations, and we will embrace your recommendations. Additionally, we recognize [REDACTED] and his staff for the professional manner in which the audit was conducted. Their collaborative approach, patience and willingness to listen to our concerns have been appreciated.

Please contact me or Commissioner Eileen Kirkpatrick should you have any additional questions. We look forward to the final audit report.

Sincerely,

Jay A. Gsell
County Manager

cc: [REDACTED]
Commissioner Kirkpatrick
Larry Friedman, District Attorney
Sheriff Maha
William Joyce, Veteran's Services Officer
Jocelyn Sikorski, Youth Bureau, Executive Director
Pamela Whitmore, Office for the Aging, Director
Timothy Michalak, Probation

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 GCDSS 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 GCDSS for their services, we calculated the cost to these departments for providing the services and compared it with the related billings to the GCDSS.

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