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December 13, 2013

John E. Garvey, County Administrator
Members of the Board of Supervisors
Ontario County Municipal Building
20 Ontario Street
Canandaigua, NY 14424

Report Number: S9-13-16

Dear Mr. Garvey and Members of the 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 were maximizing the reimbursement of costs related to the administration of social services programs. We included Ontario 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 service costs. Specifically, the County did not seek reimbursement for about \$206,200 of its costs, potentially losing about \$154,650 in additional County revenue. We also identified inconsistencies in the methods used by various County departments to bill the Ontario County Department of Social Services (OCDSS) 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. In addition, the County overbilled indirect costs by approximately \$3,700 over a two-year period.

Background and Methodology

The County is located in central New York State and has a population of about 108,500. The County's 2013 general fund budget totaled \$182.3 million.

The OCDSS 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. OCDSS expenditures totaled \$50.4 million, or 28 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.

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

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 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 reimbursements. The Circular identifies the major types of costs, classifies them as to allowability and mandates the development of an indirect cost allocation plan.

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

- The Department of Records and Archives Information Management Services (RAIMS) for film, photography and archival services,
- The County Attorney's Office for social services-related legal inquiries and contracts,
- The Department of Transportation for transporting social services clients,
- The Public Works Department for car wash, fuel, parts and labor,
- The Sheriff's Office for fraud investigation and security services,
- The Department of Probation and Community Corrections for services such as community optional preventative services,
- The Information Services Department for computer services, telephones, copiers and printing services,
- The Public Health Department for early intervention services,
- The Department of Finance for providing accounting, auditing and fiscal analysis services required by the Accounting Unit, and
- The County Assessment Office for taxes paid on certain properties that OCDSS uses and/or owns.

The County submitted claims for reimbursement totaling \$5,609,459 in 2012 for social services administrative costs. Of this amount, direct billing claims totaled \$4,759,309 and indirect claims totaled \$850,150.

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

We reviewed¹ each County department that provided services to OCDSS and found the County could have submitted approximately \$206,200 in additional claims over the two-year period ending December 31, 2012, potentially generating up to \$154,650 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 County Attorney, Sheriff, Transportation, Public Works, Public Health and Information Services underbilled or did not bill the OCDSS for direct services provided. These departments did not use a standard billing process or did not routinely bill the OCDSS, 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 County Attorney's Office represents the County in legal matters and works with various departments, including the OCDSS, to provide legal assistance and consultation on in-house matters. The County Attorney's Office billings are based on the type of work performed along with a formula used to calculate the billings. Based on discussions with the County Attorney, we determined that \$86,400 could be billed back to the OCDSS for time spent on legal services.
- The Sheriff's Office provides fraud investigators to assist the OCDSS in investigations. The Sheriff's Office submits quarterly billings to the OCDSS for the investigation services. We determined the Sheriff's Office was not including adequate salaries and benefit costs for the investigators involved, resulting in an underbilling of \$76,500.
- The Department of Transportation (Transportation) provided staff to transport foster care and child and adult protective clients and provided Medicaid-funded non-emergency medical transportation to the OCDSS Medicaid Unit. We found that during our scope period, Transportation underbilled more than \$13,800 (overbilling for \$109,070 in 2011 and underbilling for \$122,900 in 2012). In addition, Transportation bills for the salary and fringe benefit costs of staff transporting foster care and child and adult protective

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

clients per a negotiated contract which also includes transportation, brokerage and fuel charges. According to County officials, fuel charges represent actual costs while the remainder of the billing is per the negotiated contract amount. We found that Transportation failed to bill the full contract amount in 2011, resulting in an underbilling of \$11,900.

- The Public Works Department bills OCDSS for time spent on the maintenance of OCDSS vehicles. We determined that the Public Works Department did not adequately include all salary and fringe benefits costs, resulting in an underbilling of \$7,400.
- The Public Health Department (Health) provides early intervention services for children and bills OCDSS a portion of salary and fringe benefit costs based on the percentage of Medicaid-eligible children served. We determined that Health did not adequately include all the salary and fringe benefit costs, resulting in an underbilling of \$5,300.
- The Information Services Department functions in a support role to OCDSS and bills for personnel and support costs. The Information Services Department bills annually a portion of salary and fringe benefit costs. We determined that full costs were not being included, resulting in an underbilling of \$4,800.

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 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 overbilled by approximately \$3,700. County officials were unable to explain the overbilling.

Recommendations

1. The County should standardize the billing process from the various County departments to the OCDSS 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.
4. The County should revise its indirect allocation billing to ensure it is billing only the applicable indirect cost.

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.

ONTARIO COUNTY

John E. Garvey, County Administrator
Darlys McDonough, Deputy County Administrator

585-396-4400 (T), 585-396-4406 (F)

Email: County.Administrator@Co.Ontario.ny.us

WEBSITE: www.Co.Ontario.ny.us

August 6, 2013

[REDACTED]
[REDACTED]
Office of the State Comptroller
Division of Local Government & School District Accountability
110 State Street
Albany, New York 12236

Dear [REDACTED]:

This letter is to serve as Ontario County's response to the Comptroller's Audit Report Number S9-13-16. The objective of this audit was to determine if the County was maximizing the reimbursement of costs related to the administration of social service programs. The audit was conducted in the month of May, 2013 at the offices of Ontario County Department of Social Services (the Department). Thank you for the opportunity to work collaboratively with the Comptroller's Office to improve operations, we value the input you have provided and appreciate the recommendations included within your report.

I offer brief commentary on each section of the report as listed below:

Section I: Indirect Cost Allocation

1. For claims for reimbursement of indirect costs per the approved Plans for 2011 and 2012 fiscal years, the amounts submitted were overbilled by approximately \$3,700.

Due to the timing of completion for the annual Indirect Cost Allocation (ICA) it is necessary that the Department submit a retroactive claim and adjust monthly claims mid-year annually. In the future, as part of the year end closing procedures, the Department will perform a year end reconciliation of claims to the total ICA to ensure the amount claimed is equal to the total amount due according to the plan.

Section II: Direct Billing

1. Ontario County Transportation bills the Department for salary and fringe of staff for transportation services of Foster Care and Adult Protective clients. OSC found that in 2011, Transportation failed to bill the full contract amount resulting in an under-billing of \$11,900.

The department will review with Transportation officials, the current allocation plan to determine that all administrative overhead costs are included in the allocation formula applied to total Transportation expenditures in order to ensure maximum billing to the department and thereby maximize state and federal reimbursement.

2. County Attorney billings are based on the type of work performed along with a formula used to calculate the billings. OSC determined that \$86,400 could be billed back to the Department for time spent on legal services.

In accordance with the Office of Management and Budget, OMB Circular No. A-87: "Retainer fees supported by evidence of bona fide services available or rendered are allowable", the Department enters into an annual retainer agreement with the County Attorney. The annual retainer amount is based on recent history of services provided. This annual agreement allows for flexibility in determining and re-evaluating the amount and recoupment of total expenditures to the County Attorney's office.

Effective this year, the Department will conduct a semi-annual review to ensure all social services expenditures incurred by the County Attorney through year end of the previous year are considered and included in the retainer. Upon completion of this mid-year review, the annual retainer amount will be increased or decreased as necessary based on its findings. In 2013, the County Attorney retainer amount will be adjusted by the total recommended in the OSC audit report to ensure all applicable expenditures are reimbursed.

3. The County Sheriff's Department provides fraud investigators to assist the Department in investigations. OSC determined the Sheriffs' billings were not including adequate salaries and benefits for the investigators involved resulting in under billing the Department \$76,500 over the two years audited combined.

The Department will review all relevant payroll documentation with the Office of the Sheriff to confirm all employee payroll and benefit costs are included in future billings. The Department will also work with Public Safety Finance to determine the payroll periods involved for any missed expenditures and submit for reimbursement where allowable.

4. OSC found their review of inter-departmental billing from Departments of Public Works, Public Health and Information Services resulted in determinations of under billings from each of these departments in amounts less than \$10,000 each for the two years subject to audit combined.

The Department concurs with OSC determination that these under billings most likely occur due to inconsistent billing methodology from other departments. DSS officials will work with county payroll officials, and other county finance officials to determine one procedure for efficient, thorough and consistent billing from all departments in the future in an effort to prevent future billing errors.

The Department will further request all departments review any supervisory time spent working with personnel charged to DSS to ensure applicable supervisory time is included in all chargebacks as well.

Section III: Recommendations and Corrective Action

The Department has reviewed all recommendations included in the audit report. As we have determined that we concur with all of the recommendations, the Department intends to use them as the basis and outline for Corrective Action in the future.

1. The Department will standardize the billing process from the various departments to accurately capture and bill the direct expenditures related to social services.
2. The Department will periodically monitor the social service administrative costs to ensure the county is maximizing reimbursement.

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3. The Department will ask the District Attorney's office to monitor staff time spent on prosecution activities related to social services programs and review any data provided to determine if significant costs can be accurately identified in order to be submitted for State and Federal Reimbursement.
4. As part of the year end closing procedures, the Department will perform a year end reconciliation of claims to the total ICA to ensure the amount claimed is equal to the total amount due according to the plan.

As we have incorporated Corrective Actions with Recommendations in Section III, a Corrective Action Plan under separate cover will not be submitted at this time.

Sincerely,

✓ John E. Garvey
County Administrator

cc: John F Marren, Chairman of the Board of Supervisors
Eileen Tiberio, Commissioner, Department of Social Services
Catherine S Bentzoni, Director of Finance
John W. Park, County Attorney
Mary M Burnett, Manager of Audit and Financial Projects
Rochelle Gray, Senior Fiscal Manager – Department of Social Services
Mary Krause, Compliance Officer

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

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

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