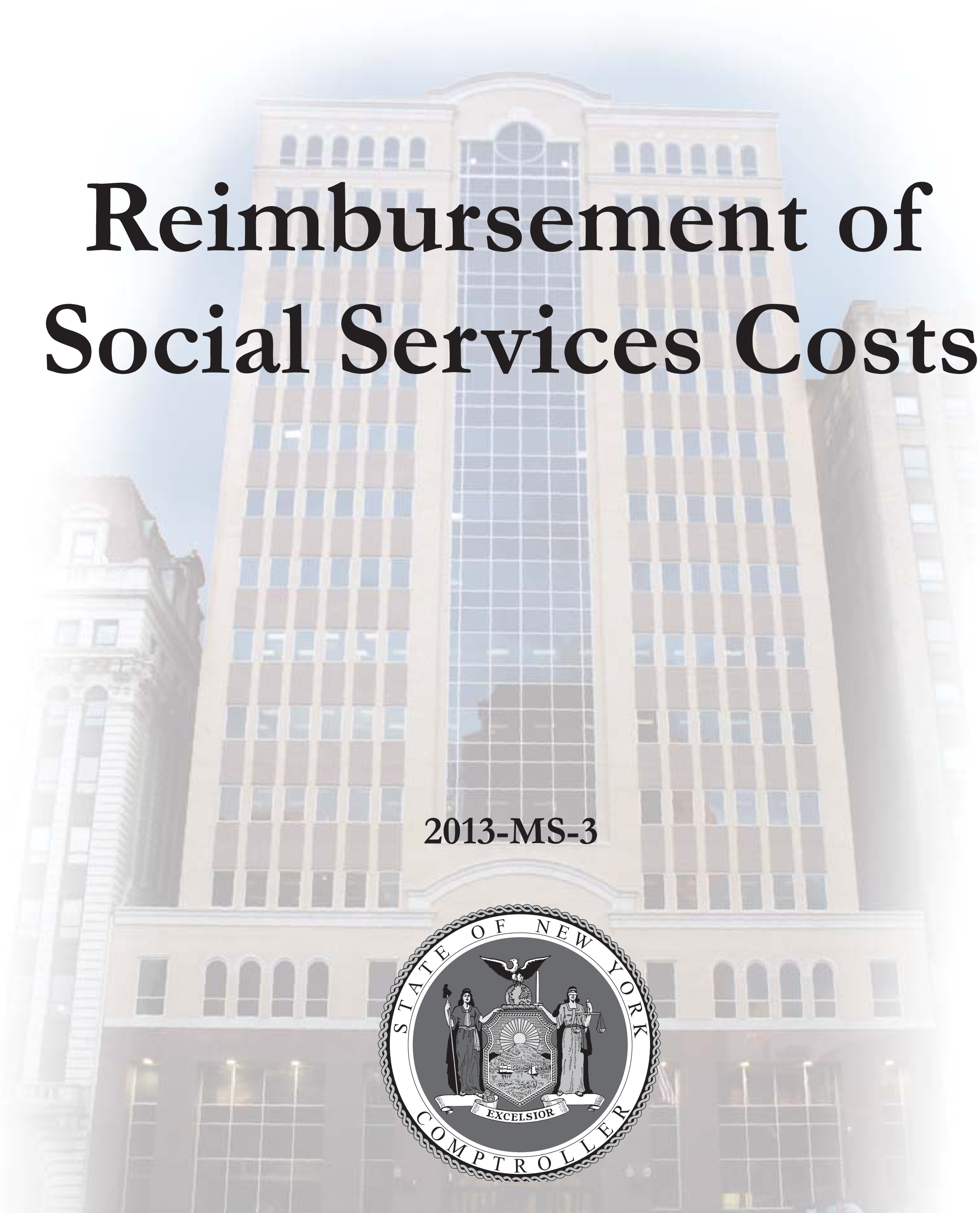
Office of the New York State Comptroller

Division of Local Government
& School Accountability

Reimbursement of Social Services Costs



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State of New York
Office of the State Comptroller

Division of Local Government
and School Accountability

December 2013

Dear County Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government 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 county governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit titled Reimbursement of Social Services Costs. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

Office of the State Comptroller
Division of Local Government
and School Accountability

Introduction

Background

Each county's Department of Social Services (DSS) administers social services programs within the county. These programs include 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. In New York State, social services programs are funded by a combination of Federal, State and county moneys. Generally, the Federal share is 50 percent and the State and county shares are each 25 percent. Exact funding levels vary depending on special or legislated funding provisions for individual social services programs.

Each DSS incurs direct and indirect program costs in the administration of social services programs. Indirect costs are those costs that are not readily identifiable with any one social services program, but are incurred for the benefit of all of the programs. For example, accounting, budgeting and personnel departments within the DSS provide support and services to the social services programs. The Federal government generally reimburses counties for 50 percent of the indirect costs they incur delivering services to, or for, the DSS. To receive these reimbursements, counties must prepare an annual Indirect Cost Allocation Plan (Plan) that individually lists each county department incurring indirect costs and provides justification for the reimbursable costs. The allocation basis used for these costs must be reasonable, consistent and equitable. The Plan is used as the foundation for claims submitted by counties to the New York State Office of Temporary and Disability Assistance (OTDA) for reimbursement of the indirect costs.[1]

Additional expenditures incurred by other county departments for the benefit of the DSS can also be reimbursable. Federal and State regulations permit the reimbursement of interdepartmental services directly billed to a DSS. These billed "direct costs" must be identified specifically with a particular DSS-related cost. Typical reimbursable direct costs are compensation of employees for the time spent on social services programs and costs of materials acquired, consumed or expended as they relate to the social services programs. These costs can be substantial and are

[1] In New York State, Federal reimbursements to counties for indirect social services program costs are paid through OTDA.

eligible for Federal and State reimbursement either through a Plan or by directly billing the DSS.

The Federal government issued the Office of Management and Budget (OMB) Circular A-87 (Circular), *Cost Principles for State, Local, and Indian Tribal Governments,* to provide guidance on allowable costs for Federal reimbursement. The Circular identifies the major types of costs normally incurred, classifies them as to allowability and mandates the development of an indirect cost allocation plan.

We audited seven counties: Franklin, Genesee, Greene, Montgomery, Ontario, Sullivan and Tioga counties. Table 1 provides relevant statistics for each county.

Table 1: Relevant County Statistics

County	2013 Budget (in millions)	Population	DSS Budget (in millions)
Franklin	$83.6	51,600	$30.1
Genesee	$100.9	60,000	$26.5
Greene	$87.6	49,200	$31.3
Montgomery	$80.4	50,200	$26.9
Ontario	$182.3	108,500	$50.4
Sullivan	$140.0	77,500	$52.7
Tioga	$69.5	51,000	$15.4

Objective

Our audit addressed the following question:

- Are counties maximizing the reimbursement of costs related to the administration of social services programs?

Scope and Methodology

For the period January 1, 2011 through December 31, 2012, we interviewed county officials, communicated with Plan Administrators,[2] and reviewed the Plans, annual financial reports and ledgers, county budgets, payroll records, departments' direct billings for services and other documents maintained by the counties that were relevant to our audit.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

[2] Each county we audited contracted with a third-party administrator to prepare and update the Plan.

Comments of Local Officials

The results of our audit and recommendations have been discussed with county officials and their comments, which appear in Appendix A, have been considered in preparing this report.

Reimbursement of Social Services Costs

The DSS incurs both direct and indirect program costs in the administration of social services programs and a portion of these costs are reimbursable by the Federal and State governments through the OTDA. Federal and State regulations permit the reimbursement of interdepartmental service costs (costs incurred by other county departments for the benefit of the DSS) that are directly billed to the DSS. In addition, counties are reimbursed for the indirect costs they incur delivering services to, or for, the DSS at rates up to 50 percent from the Federal government and 25 percent from the State. The Plan is used as the foundation for claims submitted by counties to OTDA for reimbursement of the social services costs.

Counties have the responsibility to submit claims for Federal and State reimbursement for costs incurred in the administration of social services programs. We found that counties have not maximized their reimbursement of expenditures related to the administration of social services programs. Specifically, the seven counties we audited failed to seek reimbursement for more than $1.4 million in eligible costs, potentially losing almost $1 million in additional revenue. This revenue was lost because the counties did not have formally established and consistent billing processes which resulted in billing errors (underbillings and overbillings) or a failure to bill at all. We also identified additional opportunities for counties to seek reimbursement of costs incurred by District Attorney's Offices.

Reimbursement Billings

Federal and State regulations permit the reimbursement of certain interdepartmental service costs that are directly billed to the DSS. Direct costs are those that can be identified specifically with a particular DSS-related cost. Typical reimbursable direct costs are compensation of employees for the time devoted to social services programs and costs of materials acquired, consumed or expended as they relate to the social services programs. To receive reimbursement for direct costs, county departments should bill for all actual and appropriate expenditures incurred in administering social services programs. Counties should have guidelines and procedures for the departments to follow when directly billing DSS for reimbursable services.

We found counties are not accurately capturing and billing for interdepartmental service costs related to social services programs. Some of the departments not properly billing for interdepartmental services included the County Attorney's Office, District Attorney's Office, Information Systems Department, Office for the Aging, Sheriff's Office and Department of Transportation. As a result of the improper billings, the counties did not capture and seek recoupment for all of their costs which could have increased reimbursements by almost $1 million. Table 2 summarizes the inaccurate billings by county.

Table 2: Reimbursement Analysis

County	Amount Underbilled	Amount Overbilled	Additional Potential County Revenue[a]
Franklin	$457,600	$19,200	$328,800
Genesee	$30,400	$167,600	$0
Greene	$84,400	$91,900	$0
Montgomery	$135,700	$0	$101,775
Ontario	$206,200	$0	$154,650
Sullivan	$288,800	$0	$216,600
Tioga	$223,400	$3,700	$164,775
TOTAL	$1,426,500	$282,400	$966,600

[a] Overbillings were netted against underbillings to calculate additional potential revenue.

The underbillings can be attributed to several reasons. We found that county departments are not fully capturing the counties' share of applicable FICA, disability, workers' compensation, retirement and/or health insurance costs as they relate to the direct services provided for social services programs. For example, instead of billing for the actual costs incurred, some county departments used a standard percentage to calculate these payroll-related costs. County departments were also limited to claiming certain amounts based on negotiated agreements between departments. For example:

- In Ontario County, the Sheriff's Office provided DSS with a fraud investigator to assist with social services program investigations. The Sheriff's Office submitted quarterly billings for the fraud investigator's costs. However, we found that not all the salary and fringe benefits costs were included, resulting in approximately $76,500 not being billed during the audit scope period.

- In Tioga County, a Sheriff's Office investigator spent over 50 percent of his time investigating DSS-related cases. The Sheriff's Office, however, did not bill DSS at all for the cost of this position during the audit scope period, resulting in almost $123,000 not being submitted for reimbursement.

We also found that counties are not periodically monitoring the social services programs' administrative costs to ensure that all departments that are providing services are billing DSS to maximize county reimbursements. Also, the counties did not fully understand the Federal claiming methodology which resulted in claims being incorrectly submitted for reimbursement. For example:

- A switchboard operator in Franklin County was spending as much as 50 percent of her time working on DSS-related matters. However, the County was not seeking reimbursement for her services, resulting in over $55,000 not being claimed during the audit scope period.

- In Greene and Franklin Counties, the Public Health Departments billed DSS for early childhood intervention services based on a formula which considers the percentage of time employees spend providing early intervention services and the percentage of children that are Medicaid eligible. We determined that in calculating the costs, the Public Health Departments erroneously reduced the billings to DSS by 50 percent prior to sending the claims in for reimbursement.

Some DSS have a memorandum of understanding (MOU) or similar agreement with certain county departments that set the amount a department can bill the DSS for services rendered. These agreements can limit the reimbursements that counties seek from the Federal and State governments. We found that some DSS are only submitting the amount stated in the agreement for the services provided, rather than the actual, higher costs that were incurred. Generally, counties did not provide a clause in these agreements for the departments to submit actual cost information if it differed from billing amounts. For example, the Sullivan County Department of Family Services has an MOU with the Office of Aging to bill an individual's salary at a set amount. However, the cost for this individual far exceeds the amount that is being billed, resulting in a missed opportunity for reimbursement. During our audit scope period, approximately $15,000 of actual costs was not submitted for reimbursement.

Prosecution Costs

Prosecution costs are generally not allowable costs for Federal reimbursement unless program regulations allow them to be treated as a direct cost of a specific program. For example, the United States Department of Agriculture regulations specifically state that the costs of prosecuting intentional Supplemental Nutrition Assistance Program (SNAP)[3] violations are reimbursable when they are based on a formal agreement between the DSS and the provider agency, which is usually the District Attorney's Office. In such cases, the Federal government will pay 50 percent of the SNAP fraud and abuse prosecution administrative costs.

We found that each county's District Attorney's Office provides pre-prosecution and prosecution services for cases related to social services fraud including SNAP; however, only Greene County was billing the DSS for these services. The remaining District Attorney's Offices did not bill the DSS for any of the SNAP fraud prosecution costs and, as a result, Federal reimbursement was neither sought nor obtained. Because records were not maintained in the District Attorney's Offices detailing SNAP prosecution costs and/or the time personnel spent on SNAP cases, we were unable to determine the potential revenue available. In addition, the District Attorney's Offices could not determine the amount of pre-prosecution costs incurred for other social services related work.

Indirect Cost Allocation

Claims submitted to OTDA for indirect cost reimbursements are based on current year expenditures; therefore, the total amount of these claims submitted for the year should equal the actual indirect costs incurred and allocated in the Plan for the same year. Counties file monthly electronic claims with OTDA for indirect cost reimbursements. We compared actual indirect costs per the annual Plans to the claims submitted by the counties' DSS for the 2011 and 2012 fiscal years and found that, generally, counties were submitting reimbursements for indirect costs appropriately and accurately. These counties submitted claims that included supplemental claims (for costs identified subsequent to the initial reimbursement submission) and adjusted claim amounts at the end of the year to reflect actual costs. Generally, we found counties submitted indirect claims accurately and according to Plan.

[3] Formerly known as the Food Stamp Program

Recommendations

1. Each County Commissioner of Social Services should periodically monitor claims submitted against the Plan to ensure the county's reimbursement is maximized and submit supplemental claims when applicable.

2. Each County Commissioner of Social Services should standardize the billing process from the various departments to the DSS in an effort to accurately capture and bill direct expenditures related to social services programs.

3. County District Attorney's Offices should maintain a record of staff time spent on prosecution activities related to those social services programs for which costs are Federally reimbursed. The counties should then calculate the costs of these services and apply for Federal reimbursement.

APPENDIX A

RESPONSES FROM COUNTY OFFICIALS

We provided a draft copy of this global report to the seven counties we audited and requested responses. We received response letters from five counties. Franklin and Montgomery County did not respond. The counties generally agreed with our audit report and planned to initiate corrective action.

The following comments were excerpted from the responses.

Genesee County officials said “The Comptroller’s Office has given us valuable input to improve our local operations, and we embrace the recommendations.”

Ontario County officials said: “We are actively pursuing a number of the suggestions and look forward to maximizing Ontario County’s revenues for DSS programs.”

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

We examined the counties' Plans for 2011 and 2012, where available, and the operations of county departments furnishing both direct and indirect services to the respective county DSS for the period of January 1, 2011 through December 31, 2012. Specific areas addressed in our audit include the indirect cost claiming process, identification of reimbursable costs and direct billing optimization.

To accomplish our objective, we interviewed county officials, communicated with appropriate Plan Administrators and reviewed Plans for 2011 and 2012, annual financial reports and ledgers, county budgets, payroll records, department direct billings for services and other documents maintained by the counties that were relevant to our objective. To obtain valid audit evidence, our procedures included the following:

- We reviewed Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87) which establishes 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 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 counties' financial records to their 2011 and 2012 Plans to verify the identification and inclusion of all material services and costs 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.

- We reviewed the counties' 2011 and 2012 Plans to assess the reasonableness of the allocation methods in use for the various county cost centers.

- For county departments that directly bill their respective DSS for their services, we calculated the cost to these departments of providing the services and compared it with the related billings to the DSS.

Central service department costs allocable to a county DSS are generally eligible for a 50 percent share of costs on Federally participating programs. However, for some programs the percentage of Federal reimbursement may differ from the 50 percent rate. So as not to overly complicate matters, we applied a 50 percent Federal reimbursement rate when calculating estimates of Federal reimbursement for revenue enhancements and accelerations of this nature.

Other revenue enhancements and accelerations addressed in this report are considered DSS administrative costs and must be allocated to the various social services programs administered by the DSS. Because these 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

APPENDIX C

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