
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF NEW YORK
FOR THE FISCAL YEAR ENDED
MARCH 31, 2001**

January 2003

A-77-03-00008

**MANAGEMENT
ADVISORY REPORT**



Mission

We improve SSA programs and operations and protect them against fraud, waste, and abuse by conducting independent and objective audits, evaluations, and investigations. We provide timely, useful, and reliable information and advice to Administration officials, the Congress, and the public.

Authority

The Inspector General Act created independent audit and investigative units, called the Office of Inspector General (OIG). The mission of the OIG, as spelled out in the Act, is to:

- Conduct and supervise independent and objective audits and investigations relating to agency programs and operations.**
- Promote economy, effectiveness, and efficiency within the agency.**
- Prevent and detect fraud, waste, and abuse in agency programs and operations.**
- Review and make recommendations regarding existing and proposed legislation and regulations relating to agency programs and operations.**
- Keep the agency head and the Congress fully and currently informed of problems in agency programs and operations.**

To ensure objectivity, the IG Act empowers the IG with:

- Independence to determine what reviews to perform.**
- Access to all information necessary for the reviews.**
- Authority to publish findings and recommendations based on the reviews.**

Vision

By conducting independent and objective audits, investigations, and evaluations, we are agents of positive change striving for continuous improvement in the Social Security Administration's programs, operations, and management and in our own office.



SOCIAL SECURITY

MEMORANDUM

Date: January 27, 2003

Refer To:

To: Candace Skurnik
Acting Director
Management Analysis and Audit Program Support Staff

From: Assistant Inspector General
for Audit

Subject: Management Advisory Report: Single Audit of the State of New York for the Fiscal Year Ended March 31, 2001 (A-77-03-00008)

This report presents the Social Security Administration's (SSA) portion of the single audit of the State of New York for the Fiscal Year ended March 31, 2001.¹ Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

KPMG, Certified Public Accountants, performed the audit. A Department of Health and Human Services' (HHS) desk review has concluded that the audit meets Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by KPMG and the reviews performed by HHS.

For single audit purposes, the Office of Management and Budget assigns Federal programs a Catalog of Federal Domestic Assistance (CFDA) number. SSA's Disability Insurance (DI) and Supplemental Security Income (SSI) programs are identified by CFDA number 96. SSA is responsible for resolving single audit findings reported under this CFDA number.

The New York Disability Determination Services (DDS) performs disability determinations under SSA's DI and SSI programs in accordance with Federal regulations. The DDS is reimbursed for 100 percent of allowable costs. The New York Department of Social Services (DSS), Office of Temporary and Disability Assistance (OTDA), is the New York DDS' parent agency.

¹ On January 14, 2002, the Office of the Inspector General (OIG) issued to SSA a formal draft report, *Audit of the Administrative Costs Claimed by the New York Disability Determination Division (A-15-00-20053)*. The OIG audit covered the period October 1, 1997 through September 30, 1999. This single audit covered the period April 1, 2000 through March 31, 2001.

The single audit reported that OTDA:

1. Allocated costs based on methodologies that were not approved by HHS' Division of Cost Allocation (DCA). The corrective action plan indicated that the cost allocation plan was submitted to HHS, but approval was pending (Attachment A, page 1).
2. Miscoded at least \$250,635 of payroll expenses in the State's payroll system. Failure to correctly code payroll expenses could result in an incorrect allocation of direct and indirect expenditures to the DDS. The corrective action plan indicated that OTDA implemented an electronic system to ensure the use of proper codes (Attachment A, page 3).

We recommend that SSA:

1. Upon HHS' approval of the cost allocation plan, determine whether indirect costs charged to the DDS were appropriate and collect any unallowable costs.
2. Determine the portion of the \$250,635 inappropriately charged to the DDS and collect the unallowable costs.

The single audit also disclosed the following findings that may impact DDS operations although they were not specifically identified to SSA. We are bringing these matters to your attention as they represent potentially serious service delivery and financial control problems for the Agency.

- Inaccurate information was entered into the financial status reports (Attachment B, page 1).
- Claims submitted for Federal reimbursement were not submitted timely (Attachment B, page 2).
- The DSS did not perform pre-settlement reviews of claims submitted for current expenditures and prior adjustments relating to various programs (Attachment B, page 3).

Please send copies of the final Audit Clearance Document to Mark Bailey in Kansas City and Paul Wood in Baltimore. If you have questions, contact Mark Bailey at (816) 936-5591.


Steven L. Schaeffer

Attachments

State Administrative Matching Grants for Food Stamp Program (10.561)
Temporary Assistance for Needy Families (93.558)
Child Support Enforcement (93.563)
Low Income Home Energy Assistance (93.568)
Child Care and Development Block Grant (93.575)
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)
Foster Care - Title IV-E (93.658)
Adoption Assistance (93.659)
Social Services Block Grant (93.667)
Medical Assistance Program (93.778)
Social Security-Disability Insurance (96.001)

Office of Temporary and Disability Assistance
Office of Children and Family Services
Department of Health

Reference: 01-08

Requirement

The State shall submit a cost allocation plan for the State agency as required below to the Director, Division of Cost Allocation (DCA), in the appropriate HHS Regional Office. The plan shall: (1) Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency; (2) Conform to the accounting principles and standards prescribed in Office of Management and Budget Circular A-87, and other pertinent Department regulations and instructions; (3) Be compatible with the State plan for public assistance programs described in 45 CFR Chapters II, III and XIII, and 42 CFR Chapter IV Subchapter C; and (4) Contain sufficient information in such detail to permit the Director, Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency.(45 CFR Section 95.207)

Finding

The Offices and Department, on a quarterly basis, created Central Office Cost Allocation Claims (COCACs) which accumulated direct costs and allocated indirect costs through allocation accounts. All central office and certain local districts are assigned to an accumulator code.

The COCACs contained approximately \$527 million in allocated costs covering approximately 59 separate allocation methodologies during the period April 1, 2000 through March 31, 2001. The methodologies were established to allocate overhead costs related to the programs formerly administered by Department of Social Services. Since January 1997, these programs have been administered by the Office of Temporary and Disability Assistance, the Office of Children and Family Services, and the Department of Health. Effective January 1998, the Offices and Department revised and implemented methodologies to reflect the current organizational structure of the two Human Service agencies. As part of our testwork, we noted that the allocation methodologies were submitted for review, but none have been approved by the Federal government as of the State fiscal year ended March 31, 2001. As such, the offices were allocating costs based on unapproved methodologies.

A similar finding was included in the prior year single audit report on page 31.

Recommendation

We recommend that the Offices and Department continue to seek Federal approval of the submitted plans.

Related Noncompliance

Based on the above, the Offices and Department were not fully in compliance with the above described requirement.

Questioned Costs

Cannot be determined

State Administrative Matching Grants for Food Stamp Program (10.561)
Temporary Assistance for Needy Families (93.558)
Child Support Enforcement (93.563)
Low Income Home Energy Assistance (93.568)
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Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)
Foster Care - Title IV-E (93.658)
Adoption Assistance (93.659)
Social Services Block Grant (93.667)
Medical Assistance Program (93.778)
Social Security-Disability Insurance (96.001)

Office of Temporary and Disability Assistance
Office of Children and Family Services
Department of Health

Reference: 01-09

Requirement

An adequate accounting and statistical system must exist to support claims made under a cost allocation plan. (45 CFR, Subpart E)

Finding

The Offices and Department used the Central Office Cost Allocation System (COCAS) to capture personal service, non-personal service, and training costs for allocation to the various programs. The COCAS involved accumulating direct costs and allocating indirect costs through allocation accounts and required all central office and certain local districts to be assigned an accumulator code.

The Offices maintained a Payroll Allocation Cost System (PACS) whereby it is the responsibility of each employee to determine the accumulator code that best matched their work functions. This accumulator code is to be indicated on each of the employee's time sheets, which were reviewed and approved by the employee's supervisor. The accumulator code that was assigned on the time sheet was the accumulator code that was charged for the employee's time during that pay period, and as a result the accumulator code that was charged on the quarterly Central Office Cost Allocation Claim (COCAC).

During our test work, we selected a sample of 70 employees with total salaries of \$3,651,008 from the PACS. We noted 5 individuals, with total annual salaries of \$250,635, were coded to the incorrect accumulator code on the PACS. The personal service questionnaires returned by the employees supported the accumulator code the individual charged on their time sheet, which was different from that reported per the PACS. In addition we noted 7 time sheets were either missing the accumulator code or had the wrong accumulator code, but were correctly charged on the PACS. Finally, we noted that the appropriate language certifying that the correct accumulator code is being charged was missing from all the tested time sheets.

A similar finding was included in the prior year single audit report on page 33.

Recommendation

We recommend that the Offices and Department strengthen existing procedures to ensure the proper accumulator codes are being charged.

Related Noncompliance

Based on the above, the Offices and Department were not fully in compliance with the above described requirement.

Questioned Costs

Cannot be determined

NEW YORK STATE CORRECTIVE ACTION PLAN

Single Audit of Federal Programs for
State Fiscal Year Ended March 31, 2001

State Agency: New York State Office of Children and Family Services

Single Audit Contact: Bob Metacarpa

Title: Single Audit Liaison

Telephone: (518) 474-2553

E-mail: ay3580@dfa.state.ny.us

Federal Program(s) (CFDA #[s])

Food Stamps (10.551)
State Administrative Matching Grants for Food Stamp Program (10.561)
Temporary Assistance for Needy Families (93.558)
Child Support Enforcement (93.563)
Low Income Home Energy Assistance (93.568)
Child Care and Development Block Grant (93.575)
Child Care Mandatory and Matching Funds of the Child Care and Development Fund (93.596)
Foster Care - Title IV-E (93.658)
Adoption Assistance (93.659)
Social Services Block Grant (93.667)
State Medicaid Fraud Controls Units (93.775)
State Survey and Certification of Health Care Providers and Suppliers (93.777)
Medical Assistance Program (93.778)
Social Security-Disability Insurance (96.001)

Office of Temporary and Disability Assistance
Office of Children and Family Services
Department of Health

Audit Report
Page Reference(s) **01-08**

01-08

I. Type of Finding: [Check one to identify the nature of the particular audit finding]

- | | |
|--|-----------------------------|
| Internal Control with related noncompliance | [X] |
| Internal Control Only (no noncompliance cited) | [] |
| Other reportable noncompliance (Finding Only) | [] |
| Questioned Costs | <u>Cannot be Determined</u> |

II. Summary of Finding (including any Internal Control Recommendation (s), if applicable):

Requirement

The State shall submit a cost allocation plan for the State agency as required below to the Director, Division of Cost Allocation (DCA), in the appropriate HHS Regional Office. The plan shall: (1) Describe the procedures used to identify, measure, and allocate all costs to each of the programs operated by the State agency; (2) Conform to the accounting principles and standards prescribed in Office of Management and Budget Circular A-87, and other pertinent Department regulations and instructions; (3) Be compatible with the State plan for public assistance programs described in 45 CFR Chapters II, III and XIII, and 42 CFR Chapter IV Subchapter C; and (4) Contain sufficient information in such detail to permit the Director, Division of Cost Allocation, after consulting with the Operating Divisions, to make an informed judgment on the correctness and fairness of the State's procedures for identifying, measuring, and allocating all costs to each of the programs operated by the State agency. (45 CFR Section 95.207)

Finding

The Offices and Department, on a quarterly basis, created Central Office Cost Allocation Claims (COCACs) which accumulated direct costs and allocated indirect costs through allocation accounts. All central office and certain local districts are assigned to an accumulator code.

The COCACs contained approximately \$527 million in allocated costs covering approximately 59 separate allocation methodologies during the period 4/1/00-3/31/01. The methodologies were established to allocate overhead costs related to the programs formerly administered by Department of Social Services. Since January 1997, these programs have been administered by the Office of Temporary and Disability Assistance, the Office of Children and Family Services, and the Department of Health. Effective January 1998, the Offices and Department revised and implemented methodologies to reflect the current organizational structure of the

01-08

two Human Service agencies. As part of our testwork, we noted that the allocation methodologies were submitted for review, but none have been approved by the Federal government as of the State fiscal year ended March 31, 2001. As such, the offices were allocating costs based on unapproved methodologies.

A similar finding was included in the prior year single audit report on page 31.

Recommendation

We recommend that the Offices and Department follow the standards as set forth in A-87 for submitting methodologies for federal review.

Related Noncompliance

Based on the above, the Offices and Department were not fully in compliance with the above described requirement.

Questioned Costs

Cannot be determined

III. Agency Response:

The Office of Children and Family Services (OCFS) along with the Office of Temporary and Disability Assistance (OTDA) submitted cost allocation plans to the Division Of Cost Allocation (DCA) as required.

To date, the plans remain pending at DCA. The "Related Noncompliance" section states "the Offices and Department were not fully in compliance," this statement is misleading as the Offices have submitted plans as required, and are claiming consistent with these pending plans.

Further, there is reference to a January 1997 date that states programs have been administered by OTDA, OCFS and Department of Health (DOH); it is not clear what this date refers to. The pending plans were submitted in reaction to the restructuring of the Department of Social Services in January 1998.

NEW YORK STATE CORRECTIVE ACTION PLAN

Single Audit of Federal Programs for
State Fiscal Year Ended March 31, 2001

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Medical Assistance Program (93.778)
Social Security-Disability Insurance (96.001)

Office of Temporary and Disability Assistance
Office of Children and Family Services
Department of Health

Audit Report
Page Reference(s) **01-09**

01-09

I. Type of Finding: [Check one to identify the nature of the particular audit finding]

- | | |
|--|-----------------------------|
| Internal Control with related noncompliance | [X] |
| Internal Control Only (no noncompliance cited) | [] |
| Other reportable noncompliance (Finding Only) | [] |
| Questioned Costs | <u>Cannot be Determined</u> |

II. Summary of Finding (including any Internal Control Recommendations if applicable):

Requirement

An adequate accounting and statistical system must exist to support claims made under a cost allocation plan. (45 CFR, Subpart E)

Finding

The Offices and Department used the Central Office Cost Allocation System (COCAS) to capture personal service, non-personal service, and training costs for allocation to the various programs. The COCAS involved accumulating direct costs and allocating indirect costs through allocation accounts and required all central office and certain local districts to be assigned an accumulator code.

The Offices maintained a Payroll Allocation Cost System (PACS) whereby it is the responsibility of each employee to determine the accumulator code that best matched their work functions. This accumulator code is to be indicated on each of the employee's time sheets, which were reviewed and approved by the employee's supervisor. The accumulator code that was assigned on the time sheet was the accumulator code that was charged for the employee's time during that pay period, and as a result the accumulator code that was charged on the quarterly Central Office Cost Allocation Claim (COCAC).

During our test work, we selected a sample of 70 employees with total salaries of \$3,651,008 from the PACS. We noted 5 individuals, with total annual salaries of \$250,635, were coded to the incorrect accumulator code on the PACS. The personal service questionnaires returned by the employees supported the accumulator code the individual charged on their time sheet, which was different from that reported per the PACS. In addition we noted 7 time sheets were either missing the accumulator code or had the wrong accumulator code, but were correctly charged on the PACS. Finally, we noted that the appropriate language certifying that the correct accumulator code is being charged was missing from all the tested time sheets.

01-09

A similar finding was included in the prior year single audit report on page 33.

Recommendation

We recommend that the Offices and Department strengthen existing procedures to ensure the proper accumulator codes are being charged.

Related Noncompliance

Based on the above, the Offices and Department were not fully in compliance with the above described requirement.

Questioned Costs

Cannot be determined

III. Agency Response:

Office of Temporary and Disability Assistance (OTDA) implemented an electronic timecard to provide the following:

- All accumulator codes are input,
- Those codes are transmitted to the time card unit in OHRM (OTDA)
- The codes are then transmitted to the PACS System.

We will continue to work with OTDA and responsible units within OCFS to ensure that proper accumulator codes are charged. In addition, both the OCFS manual time and accrual record and the OTDA electronic submission include an attestation that all information contained on the submittal is accurate.

**State Administrative Matching Grants for Food Stamps Program (10.561)
Child Support Enforcement (93.563)**

Office of Temporary and Disability Assistance

Reference: 01-03

Requirement

Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant (45 CFR section 92.20(b)(1)) and 7 CFR section 3016.20(b)(1).

Finding

The Office maintained the documentation that was used to compile their Quarterly Expenditure Reports (QER's) for the year under audit.

During our testwork, we noted the Food Stamp QER for March 31, 2001 had overstated outlays by \$50,890 under Column 10. This column is a summary column. The Child Support Enforcement QER (OCSE 396A) for the period ended March 31, 2001 had overstated Line 3b in the amount of \$15,973. We further noted that this difference was caused by a mathematical error in which the interest income reported in this amount was not deducted from the net federal share amount detailed on line 3b. Both errors were corrected by adjusting the June 30, 2001 financial reports.

Recommendation

We recommend that the Office implement additional procedures to ensure that the financial status reports are stated properly each quarter.

Related Noncompliance

Based on the above, the Office was not in compliance with this requirement.

Questioned Costs

\$50,890 - CFDA #10.561

\$15,973 - CFDA #93.563

**State Administrative Matching Grants for Food Stamp Program (10.561)
Child Support Enforcement (93.563)
Medical Assistance (93.778)**

Office of Temporary and Disability Assistance

Reference: 01-04

Requirement

The Department of Health and Human Services and the United States Department of Agriculture will pay a State agency for expenditures only if a claim is filed within 2 years after the calendar quarter in which the State agency made the expenditure.

The time limits do not apply for any of the following:

- Any claim for an adjustment to prior year costs
- Any claim resulting from an audit exception
- Any claim resulting from a court ordered retroactive payment
- Any claim for which the Secretary decides there was good cause for the State's not filing it within the time limit (45 CFR Section 95.7, .19, and 7 CFR Section 277.11 (d)(2), 277.11 (d)(3), and 277.11 (d)(5)).

Finding

The Office is responsible for ensuring that claims submitted for Federal reimbursement meet the time limitations as outlined in the program regulations. During our audit, we noted that all local district claims were included on the Quarterly Expenditure Report (QER) regardless of when the expenditures were incurred. The Office did not have procedures to ensure local district claims received beyond the two year claiming period met any of the above exceptions.

Further, we were unable to perform testwork over compliance related to the programs cited above, as the related supporting documentation is maintained at the local level. Therefore, we were not able to determine whether the claims exceeded the two year time limit, or if they did, whether they qualified as exceptions to the time limitations.

A similar finding was included in the prior year single audit report on pages 82 and 106.

Recommendation

We recommend that the Office establish procedures to ensure that all claims submitted for Federal reimbursement meet the filing time limit.

State Administrative Matching Grants for Food Stamp Program (10.561)
Temporary Assistance for Needy Families (93.558)
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Adoption Assistance (93.659)
Social Services Block Grant (93.667)
Medical Assistance Program (93.778)

Office of Temporary and Disability Assistance
Office of Children and Family Services
Department of Health

Reference: 01-07

Requirement

To be allowed under a grant, costs must be necessary, reasonable, and supported by adequate documentation (OMB Circular A-87).

Finding

The local districts submitted claims for current expenditures and prior adjustments relating to the various programs on the RF-2, RF-2A, RF-6 and RF-8 forms via the claims processing system. We noted that during the year under audit, the Office conducted pre-settlement reviews of New York City claims for each month for the RF-2, RF-2A, RF-6 and RF-8 claims. Additionally, one monthly review was performed for Monroe and Westchester Counties during the period under audit.

A similar finding was included in the prior year single audit report on page 30.

Recommendation

We recommend that the Office expand the number of reviews performed and document the assessment used in selecting a sample of local district claims to review for allowability.

Overview of the Office of the Inspector General

Office of Audit

The Office of Audit (OA) conducts comprehensive financial and performance audits of the Social Security Administration's (SSA) programs and makes recommendations to ensure that program objectives are achieved effectively and efficiently. Financial audits, required by the Chief Financial Officers' Act of 1990, assess whether SSA's financial statements fairly present the Agency's financial position, results of operations and cash flow. Performance audits review the economy, efficiency and effectiveness of SSA's programs. OA also conducts short-term management and program evaluations focused on issues of concern to SSA, Congress and the general public. Evaluations often focus on identifying and recommending ways to prevent and minimize program fraud and inefficiency, rather than detecting problems after they occur.

Office of Executive Operations

The Office of Executive Operations (OEO) supports the Office of the Inspector General (OIG) by providing information resource management; systems security; and the coordination of budget, procurement, telecommunications, facilities and equipment, and human resources. In addition, this office is the focal point for the OIG's strategic planning function and the development and implementation of performance measures required by the *Government Performance and Results Act*. OEO is also responsible for performing internal reviews to ensure that OIG offices nationwide hold themselves to the same rigorous standards that we expect from SSA, as well as conducting investigations of OIG employees, when necessary. Finally, OEO administers OIG's public affairs, media, and interagency activities, coordinates responses to Congressional requests for information, and also communicates OIG's planned and current activities and their results to the Commissioner and Congress.

Office of Investigations

The Office of Investigations (OI) conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement of SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, physicians, interpreters, representative payees, third parties, and by SSA employees in the performance of their duties. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Counsel to the Inspector General

The Counsel to the Inspector General provides legal advice and counsel to the Inspector General on various matters, including: 1) statutes, regulations, legislation, and policy directives governing the administration of SSA's programs; 2) investigative procedures and techniques; and 3) legal implications and conclusions to be drawn from audit and investigative material produced by the OIG. The Counsel's office also administers the civil monetary penalty program.