
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF NEW YORK
FOR THE FISCAL YEAR ENDED
MARCH 31, 2004**

December 2005 A-77-06-00003

**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: December 21, 2005

Refer To:

To: Candace Skurnik
Director
Audit Management and Liaison Staff

From: Inspector General

Subject: Management Advisory Report: Single Audit of the State of New York for the Fiscal Year Ended March 31, 2004 (A-77-06-00003)

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, 2004. Our objective was to report internal control weaknesses, noncompliance issues, and unallowable costs identified in the single audit to SSA for resolution action.

KPMG LLP performed the audit. The Department of Health and Human Services (HHS) desk review concluded that the audit met Federal requirements. In reporting the results of the single audit, we relied entirely on the internal control and compliance work performed by KPMG LLP and the reviews performed by HHS. We conducted our review in accordance with the *Quality Standards for Inspections* issued by the President's Council on Integrity and Efficiency.

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 State Department of Social Services Office of Temporary and Disability Assistance (OTDA) is the New York DDS' parent agency.

The single audit reported that the OTDA:

1. Allocated indirect costs to the New York DDS based on cost allocation plan methodologies that were pending HHS' approval. The corrective action plan indicated that OTDA submitted the cost allocation plan to HHS as required and was working with the Federal program staff to clarify and resolve issues to get outstanding plans approved (see Attachment A, pages 1 through 4).
2. Miscoded payroll expenses in the accounting system which may have resulted in improper charges to various Federal programs, including SSA. The corrective action plan indicated that the Department will continue to stress the importance of using proper accumulator codes, and appropriate corrections were made to the employee timesheets (see Attachment A, pages 5 through 8).

We recommend that SSA determine whether:

1. Indirect costs charged to the New York DDS were in accordance with the cost allocation plan subsequently approved by HHS, and if appropriate, collect any unallowable costs.
2. OTDA's reviews of miscoded vouchers identified inappropriate charges to the New York DDS, and, if appropriate, collect any unallowable costs.

Please send copies of the final Audit Clearance Document to Shannon Agee and Rona Lawson. If you have questions contact Shannon Agee at (816) 936-5590.



Patrick P. O'Carroll, Jr.

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: **04-10**

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 the Department of Health, on a quarterly basis, create Central Office Cost Allocation Claims (COCACs) which accumulate direct costs and allocated indirect costs through allocation accounts. All central office and certain local district costs are assigned to an accumulator code.

The COCACs contained approximately \$646 million in allocated costs covering 86 separate allocation methodologies during the period April 1, 2003 through March 31, 2004. The methodologies were established to allocate overhead costs related to the programs formerly administered by the Department of Social Services. Effective October 1, 1996 the Department of Health became the Single State Agency for Medicaid, with DSS submitting other State agencies' claims to DOH for Medicaid reimbursement based on the DSS COCACs. Effective with the January 1, 1998 reorganization of DSS to create the Office of Children and Family Services and the Office of Temporary and Disability Assistance, OCFS and OTDA revised and implemented cost allocation methodologies regarding the programs which they then administered to reflect the current organizational structure of the two Human Service agencies.

As part of our testwork, we analyzed the dates that the allocation methodologies were federally reviewed and noted that there were 36 separate allocation methodologies with \$143 million in allocated costs related to the Office of Children and Family Services and \$90 million related to the Office of Temporary and Disability Assistance that had not yet been approved by the Federal government as of the State fiscal year ended March 31, 2004. As such, the Offices and Department were allocating costs based on unapproved methodologies.

A similar finding was included in the prior year single audit report as finding 03-10 on page 34.

Questioned Costs

Cannot be determined

Views of Responsible Officials

Presented in the State Agency Corrective Action Plans attached as an appendix to the Single Audit Report.

NEW YORK STATE CORRECTIVE ACTION PLAN

**Single Audit of Federal Programs for
State Fiscal Year Ended March 31, 2004**

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

Single Audit Contact: Robert Metacarpa

Title: Outside Audit Liaison

Telephone: (518) 474-2553

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

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

State Administrative Matching Grants for Food Stamp Program (10.561)

Temporary Assistance for Needy Families (93.558)

Child Support Enforcement (93.563)

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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

Audit Report Reference: 04-10

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

Internal Control with related noncompliance

Internal Control Only (no noncompliance cited)

Other reportable noncompliance (Finding Only)

Questioned Costs Cannot Be Determined

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

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

The COCACs contained approximately \$646 million in allocated costs covering 86 separate allocation methodologies during the period April 1, 2003 through March 31, 2004. The methodologies were established to allocate overhead costs related to the programs formerly administered by the Department of Social Services. Effective October 1, 1996 the Department of Health became the Single State Agency for Medicaid, with DSS submitting other State agencies' claims to DOH for Medicaid reimbursement based on the DSS COCACs. Effective with the January 1, 1998 reorganization of DSS to create the Office of Children and Family Services and the Office of Temporary and Disability Assistance, OCFS and OTDA

revised and implemented cost allocation methodologies regarding the programs which they then administered to reflect the current organizational structure of the two Human Service agencies.

As part of our testwork, we analyzed the dates that the allocation methodologies were federally reviewed and noted that there were 36 separate allocation methodologies with \$143 million in allocated costs related to the Office of Children and Family Services and \$90 million related to the Office of Temporary and Disability Assistance that had not yet been approved by the Federal government as of the State fiscal year ended March 31, 2004. As such, the Offices and Department were allocating costs based on unapproved methodologies.

A similar finding was included in the prior year single audit report as finding 03-10 on page 34.

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) on a timely basis as required by regulation.

KPMG is correct that as of the end date of the audit period, some plans were at DCA and had not yet been approved. While the "Related Noncompliance" section states "the Offices and Department were not fully in compliance," this statement is misleading since the regulation requires the State to submit the plans. The Offices have submitted plans as required, and are claiming consistent with the pending plans. OCFS and OTDA are continuously working directly with Federal program staff and DCA to clarify and resolve issues and get the outstanding plans approved.

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

Reference: 04-11

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). In the review of the employees' time sheets, we noted that all Office of Children and Family timesheets were missing the appropriate language certifying that the correct accumulator code was being charged.

During our test work, we selected a sample of 40 employees with total salaries of \$2,809,609 from the PACS. Thirty-five employees with total salaries of \$2,451,535 were from the Office of Temporary and Disability Assistance (OTDA) and 5 employees with total salaries of \$358,074 were from the Office of Children and Family Services (OCFS). We noted 2 OTDA individuals, with total annual salaries of \$198,691, with accumulator codes listed on the timesheet, which did not match the accumulator codes in PACS and were coded to the incorrect accumulator code in PACS. This was noted through the personal service questionnaires returned by the employees, which supported a different accumulator code than the individual charged on their time sheet and on the PACS. In addition, we noted two OTDA employees with total annual salaries of \$93,548 with accumulator codes on their timesheets that did not match the accumulator code in PACS, however, the accumulator code in PACS was appropriate. This was due to the fact that the Office recently determined that the electronic timesheet system does not keep a historical record of changes to accumulator codes when employees change job positions.

Furthermore, we selected a sample of 90 non-personal service vouchers for a total of \$289,968. Sixty vouchers totaling \$104,177 were from OTDA and thirty vouchers totaling \$185,791 were from OCFS. During our testwork we noted 1 OTDA voucher totaling \$1,007 that was determined to be neither necessary nor reasonable to the program.

A similar finding was included in the prior year single audit report as finding 03-11 on page 36.

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

Views of Responsible Officials

Presented in the State Agency Corrective Action Plans attached as an appendix to the Single Audit Report.

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**Single Audit of Federal Programs for
State Fiscal Year Ended March 31, 2004**

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Office of Temporary and Disability Assistance

Office of Children and Family Services

Department of Health

Audit Report Reference: 04-11

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 Cannot Be Determined

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

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.

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the employees' time sheets, we noted that all Office of Children and Family timesheets were missing the appropriate language certifying that the correct accumulator code was being charged.

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Furthermore, we selected a sample of 90 non-personal service vouchers for a total of \$289,968. Sixty vouchers totaling \$104,177 were from OTDA and thirty vouchers totaling \$185,791 were from OCFS. During our testwork we noted one OTDA voucher totaling \$1,007 that was determined to be neither necessary nor reasonable to the program.

A similar finding was included in the prior year single audit report as finding 03-11 on page 36.

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.

Agency Response:

Personal Service Finding

With regard to the current year's findings, there were no findings related to OCFS. Nevertheless, OCFS will continue to stress to staff the importance of using correct accumulators as we continue to implement the electronic Time Record System throughout the agency.

Two OTDA staff were determined by KPMG to be incorrectly charged and two others were incorrectly charged on their timesheets but correctly charged in PACS. OTDA will make the appropriate corrections for the two staff. During 2004-05, OTDA has undertaken several reviews and issued a bulletin to all employees to strengthen the procedures.

Non-Personal Service (NPS) Finding

Of the 30 OCFS vouchers reviewed, no errors were found.

Of the 60 OTDA vouchers reviewed, KPMG determined that one voucher did not show itself to be necessary or reasonable. OTDA is reviewing that voucher and is taking steps to strengthen procedures in issuing purchase orders and reviewing resultant vouchers.

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of our Office of Investigations (OI), Office of Audit (OA), Office of the Chief Counsel to the Inspector General (OCCIG), and Office of Executive Operations (OEO). To ensure compliance with policies and procedures, internal controls, and professional standards, we also have a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts and/or supervises financial and performance audits of the Social Security Administration's (SSA) programs and operations and makes recommendations to ensure program objectives are achieved effectively and efficiently. Financial audits assess whether SSA's financial statements fairly present SSA's financial position, results of operations, and cash flow. Performance audits review the economy, efficiency, and effectiveness of SSA's programs and operations. OA also conducts short-term management and program evaluations and projects on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts and coordinates investigative activity related to fraud, waste, abuse, and mismanagement in SSA programs and operations. This includes wrongdoing by applicants, beneficiaries, contractors, third parties, or SSA employees performing their official duties. This office serves as OIG liaison to the Department of Justice on all matters relating to the investigations of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

Office of the Chief Counsel to the Inspector General

OCCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCCIG also advises the IG on investigative procedures and techniques, as well as on legal implications and conclusions to be drawn from audit and investigative material. Finally, OCCIG administers the Civil Monetary Penalty program.

Office of Executive Operations

OEO supports OIG by providing information resource management and systems security. OEO also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OEO is the focal point for OIG's strategic planning function and the development and implementation of performance measures required by the Government Performance and Results Act of 1993.