

THOMAS P. DINAPOLI
COMPTROLLER



110 STATE STREET
ALBANY, NEW YORK 12236

STATE OF NEW YORK
OFFICE OF THE STATE COMPTROLLER

January 16, 2014

Ms. Sheila Poole
Acting Commissioner
Office of Children and Family Services
52 Washington Street
Rensselaer, NY 12144

Re: Youth Facility Chargeback Rates
to Localities
Report 2013-F-28

Dear Acting Commissioner Poole:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we followed up on the actions taken by officials of the Office of Children and Family Services to implement the recommendations contained in our report, *Youth Facility Chargeback Rates to Localities* (Report 2009-S-20) issued March 21, 2012.

Background, Scope, and Objectives

The Office of Children and Family Services (OCFS) is responsible for critical elements of the State's juvenile justice program, including the administration and management of various facilities housing juvenile offenders. Localities are required to reimburse OCFS for 50 percent of the expenditures incurred for the care, maintenance, and supervision of the youth within these juvenile facilities. OCFS' Rate Setting Unit develops the "chargeback" rates used to bill localities. In calendar years 2006 and 2007, there were 43 juvenile facilities in New York State servicing over 3,000 youth. OCFS' total annual juvenile facility operating costs for this period exceeded \$200 million.

Our initial audit report examined whether chargeback rates used by OCFS were calculated appropriately, and whether OCFS had been collecting the appropriate reimbursements from localities. We found OCFS officials largely calculate juvenile facility chargeback rates correctly. However, OCFS had been deficient in revising its rates in a timely manner, and in billing and collecting the required reimbursements from localities. We also found that as of August 2010, OCFS officials had yet to collect at least \$40 million that should have been billed and collected in prior years. The objective of our follow-up was to assess the extent of implementation, as of

October 15, 2013, of the seven recommendations included in our initial report.

Summary Conclusions and Status of Audit Recommendations

We found OCFS officials have made significant progress in implementing recommendations from our prior report. Five of the seven recommendations have been implemented, one recommendation has not been implemented and one recommendation is no longer applicable.

Follow-Up Observations

Recommendation 1

Prepare detailed procedures to guide staff on how to develop and calculate the annual chargeback rates. Distribute the procedures to relevant staff.

Status - Implemented

Agency Action - OCFS developed and documented the chargeback rate methodology in February of 2009 and a user manual in June of 2010. The user manual is updated as needed and is maintained on a shared folder available to OCFS' budget office staff. Those specifically responsible for setting the rates also have a hard copy available to them.

Recommendation 2

Revise chargeback rates annually as required.

Status - Implemented

Agency Action - OCFS has revised chargeback rates annually as required for both interim and final rates for the years 2011, 2010, 2009 and 2008. These rates have been documented in the Agency's Administrative Directives, which are available on the OCFS website.

Recommendation 3

Aggressively pursue outstanding receivables from localities. If necessary, offset those receivables with State monies due to those localities.

Status - Implemented

Agency Action - OCFS has aggressively pursued outstanding receivables from localities. OCFS has lowered the amount of its outstanding balances from \$51 million in our original audit to about \$8 million currently. Over \$20 million in receivables were collected between April 1, 2013 and October 21, 2013 alone.

Recommendation 4

Ensure that all depreciable assets are included in the chargeback rate calculation and that their correct asset values and useful lives are applied.

Status - Implemented

Agency Action - OCFS has ensured that all depreciable assets are included in the chargeback rate calculation and that their correct asset values and useful lives are applied. OCFS now uses depreciation data provided by the Office of General Services (OGS) to ensure the proper depreciation method is used. The information is received directly from OGS each year, maintained in a file on the shared drive, and then used to set the rates. The process for obtaining and using the depreciable assets data to calculate the correct annual rate calculation is outlined in the user manual.

Recommendation 5

Use care days when calculating the rates for the various facility security levels in compliance with OCFS policy.

Status - No Longer Applicable

Agency Action - At the time of our original audit OCFS had facilities with multiple security levels resulting in varying costs depending on the type of facility. OCFS chose not to allocate the costs for mixed operation facilities by actual care days, choosing instead to use a 50 percent assumption and divide the costs evenly for the year between Secure and Limited Secure levels. However, OCFS no longer operates facilities with multiple security levels. Additionally, officials stated OCFS has no intention of ever returning to operating facilities with varying security levels.

Recommendation 6

Ensure that all indirect costs are captured and utilized in the annual chargeback rate calculations.

Status - Implemented

Agency Action - OCFS has ensured that all indirect costs are captured and utilized in the annual chargeback rate calculations. OCFS assigns specific codes to each of its employees based on their job titles. Using these codes officials are able to capture the indirect costs to be utilized in the annual rate calculations. Officials also run exception reports and audit allocated costs to ensure they are captured correctly. The process for allocating indirect costs to the annual chargeback rate calculation is outlined in the user manual.

Recommendation 7

Recalculate the rates for 2006 and 2007 by including the underreported expenses included in our report. Adjust future billings for these periods accordingly.

Status - Not Implemented

Agency Action - OCFS has not recalculated the 2006 and 2007 rates. Officials reiterated their disagreement with the recommendation and will not be recalculating the rates or adjusting billing for these periods. However, as stated in our original report, OCFS uses two distinct indirect cost pools (Indirect All and Indirect Limited Secure-Foster Care). Our review of indirect cost allocations identified several errors in the amounts included in both cost pools for both years of our review. These errors resulted in \$2.3 million of indirect costs that were not included in the chargeback rates billed to localities.

Major contributors to the report were Todd Seeberger, Heather Pratt and Marisa Wolosz.

We would appreciate your response to this report within 30 days, indicating any actions planned to address the unresolved issues discussed in this report. We thank the management and staff of OCFS for the courtesies and cooperation extended to our auditors during this review.

Very truly yours,

Donald D. Geary
Audit Manager

cc: James Conway, Director of Internal Audit
Ralph Timber, Audit Liason