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December 13, 2013

Thomas Leitz, County Manager
Franklin County Board of Legislators
Franklin County
355 West Main Street, Suite 456
Malone, NY 12953

Report Number: S9-13-20

Dear Mr. Leitz and Members of the County Board of Legislators:

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 Franklin 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 report. Appendix B includes our comments on issues raised in the County's response. 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 services costs. Specifically, the County did not seek reimbursement on $457,561 of expenditures, potentially representing $343,171 in additional County revenue. In addition, we determined that the County overbilled approximately $19,200 among various departments and received $14,400 in inappropriate reimbursement. We also identified inconsistencies in the methods of billing the Franklin County Department of Social Services (FCDSS) for direct services provided by various County departments. These inconsistencies resulted in underbillings for direct services, and ultimately affected the Federal and State reimbursements to the County for such services.

Background and Methodology

The County is located in northern New York State and has a population of about 51,600. The County's 2013 general fund budget totaled $83.6 million.

The FCDSS 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. FCDSS expenditures totaled $30.1 million or 34 percent of the County's 2012 general fund budget.

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 is required to 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.

In addition to costs incurred within the FCDSS, other expenditures (direct charges) incurred by other County departments can be allocated to the FCDSS. Federal and State regulations permit the reimbursement of interdepartmental services directly billed to the FCDSS. 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 through the Plan or through direct billing of the FCDSS (and their ability to be charged-back as direct costs by the department incurring the costs).

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

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

- The Career Development Center for public assistance employment programs,

- The Probation Department for juveniles and/or persons in need of supervision (PINS) diversion,

- The Department of Public Health for early intervention services,

- The Sheriff's Department for security services and delivery of subpoenas, and

- The Coordination and Referral of Extended Services Unit for long-term care services for disabled adults and children and for the elderly in need of assistance.

The County submitted claims for reimbursement totaling $2,707,582 in 2012 for social services administrative costs. Of this amount, direct billing claims totaled $2,177,982 and indirect claims totaled $529,600.

We examined the County's Plan for 2011, available documentation for 2012 and the operations of County departments furnishing both direct and indirect services to the FCDSS 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 C of this report.

Audit Results

<u>Direct Billing</u> – To receive all reimbursements for applicable costs, County departments should bill all actual and appropriate expenditures incurred on behalf of the administration of social services programs. The FCDSS should have guidelines and procedures for the departments to follow when directly billing FCDSS for reimbursable services.

We reviewed[1] each County department that provided services to FCDSS and found the County could have submitted $457,561 in additional claims over the two-year period ending December 31, 2012, potentially generating up to $343,171 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 the various County departments for interdepartmental billing. The departments of Probation, Public Health, Sheriff and District Attorney underbilled the FCDSS for direct services provided. In addition, FCDSS uses a telephone operator that the County was not seeking reimbursement for. These departments did not use a standard billing process or did not routinely bill the FCDSS, 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 Probation Department bills the FCDSS for juveniles and PINS diversion; however, the billings did not include all salary and fringe benefit costs in the administrative calculations, resulting in more than $236,900 not being billed.

- The Department of Public Health's Early Intervention Program bills FCDSS for early intervention services provided to children under the age of three. The Department of Public Health incorrectly reduced the billing to FCDSS by 50 percent, resulting in underbillings of approximately $138,125.

- The FCDSS uses a telephone operator that the County estimates spends approximately 50 percent of her time on FCDSS-related calls and inquires. The FCDSS can claim an additional $55,503 in costs for reimbursement based on salary and fringe benefit costs for this position.

- The Sheriff's Department bills FCDSS for one full-time officer to provide security within the FCDSS complex. The Sheriff's Department did not bill the officer's entire salary and fringe benefit costs, resulting in an underbilling of $16,661. In addition, the Sheriff's Department bills FCDSS for delivering subpoenas to FCDSS clients at a rate of $15 fee per subpoena plus mileage for delivery. This rate, however, did not even cover the hourly rate of the officer delivering these subpoenas, resulting in an underbilling of $2,888.

- The District Attorney's Office does not bill FCDSS for services. The District Attorney provided estimates of time spent by attorneys and staff in his office on pre-prosecution of FCDSS-related cases. Based on these estimates, we determined that the District Attorney's Office could have billed and sought reimbursement for as much as $7,476.

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

In addition, we identified other departments, such as the Office for the Aging (OFA) and the Career Development Center (CDC), where the County received more reimbursement than it was entitled to receive. For example:

- The CDC was billing FCDSS for a wide range of employment programs. We found that the CDC overbilled salary and fringe benefit costs by approximately $14,230 over the course of two years. After re-evaluating the services and costs of the CDC in 2012, the County decided to provide these services in-house effective October 1, 2012.

- The OFA was billing FCDSS for assistance with HEAP for residents aged 60 and older. We found that the OFA overbilled FCDSS by more than $5,000 in salary and fringe benefit costs for the actual time spent by OFA staff.

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 fraud prosecution costs related to the Supplemental Nutrition Assistance Program or other pre-prosecution costs relating to social services programs. Maintaining such records may provide opportunities for additional reimbursement.

<u>Indirect Cost Allocation</u> **–** 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 2011 and available documentation for the 2012 fiscal year and found that the amounts submitted were accurate.

Recommendations

1. The County should standardize the billing process from the various County departments to the FCDSS 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.

The Board of Legislators 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 Legislators 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.

Office of Franklin County Manager

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September 9, 2013

Mr. Thomas P. DiNapoli
New York State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. DiNapoli:

On behalf of the Franklin County Board of Legislators and all taxpayers within the County I thank you for the effort your staff put forth in auditing Franklin County's Department of Social Services. We found your staff to be competent, helpful, and highly professional.

In general we do not dispute the majority of your audit findings as to our ability to maximize reimbursements. In particular, your audit revealed that we should be more vigilant in contracting in instances where reimbursement is possible, monitoring and updating the contractual amounts to properly reflect actual costs, and budgeting based on the most current information. We have already had a series of internal meetings to correct these issues going forward, and the Department of Social Services (DSS) is preparing to claim for reimbursement retroactively based on your audit findings.

We do dispute some of the dollar amounts cited in your audit, and in some cases the differences are significant. Our explanations are provided below.

JD/PINS Diversion Program: Your audit noted the JD/PINS Diversion Program billings did not include all possible salary and fringe costs, resulting in $379,200 not being billed to the Probation Department. Based on our calculations the billing for this program was incorrect, but the shortfall was $236,908. Almost all of this pertained to the 2011 calendar year; current year billing is in accordance with actual costs.

See Note 1 Page 10

Early Intervention Program: We thank you for pointing our errors we had made in billing the public health department for these program costs. We have confirmed the veracity of your findings with the Office of Temporary and Disability Assistance, and are preparing to claim for costs incurred in 2011 and 2012.

HEAP Expenses: Your audit indicated the Office for the Aging was overbilled by $5,000 for HEAP expenses incurred in 2011 and 2012. However, upon review of our records we confirmed the amounts billed were based on actual expenses. Further, each year a reconciliation process occurs; in 2011 and 2012 DSS was refunded $372.25 and $1,281.55.

See Note 2 Page 10

Career Development Center: DSS contracted with the Career Development Center (CDC) in 2011 and for portions of 2012. On October 1 of 2012 the contract ended, and former CDC staff became directly employed by DSS. Your audit indicated that CDC was overbilled by $14,200 for services provided in those years. Upon review of our files we have confirmed the amounts billed, and are comfortable with our methodology and documentation.

See Note 3 Page 10

For other programs and services cited the differences noted were not significant. We also note that correcting the issues cited in your audit may not result in increased reimbursement in certain program areas due to reimbursement ceilings.

Overall, your audit noted that we did not correctly seek reimbursement for $544,400 in expenses. Using a reimbursement rate of 75 percent, this amount would represent $408,300 in revenue.

Our review indicates that we did not correctly seek reimbursement for $391,847 in expenses. We are preparing to claim for these expenses and anticipate receiving $293,855 in reimbursement.

Regardless of the actual reimbursement we will ultimately receive, we appreciate the technical guidance provided by your office.

Sincerely Yours,

Thomas J. Leitz
County Manager

APPENDIX B

OSC COMMENTS ON THE COUNTY'S RESPONSE

Note 1

Subsequent to the exit conference, County officials provided us with additional information which has been incorporated in the report.

Note 2

FCDSS did not provide us with documentation to support the amount refunded from OFA. If $1,281 was refunded, it still represented only 33 percent of the $5,000 calculated as overbilled.

Note 3

The County did not share its methodology with us. In addition, other than anecdotal statements regarding the analysis, the County did not provide any additional information or financial reports to support its CDC billing estimate. We based our computations on actual salary and fringe benefit costs for the percentage of time worked.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

To accomplish our audit objective, we reviewed the operations of County departments furnishing both direct and indirect services to the FCDSS 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 2011 and 2012 Plans, annual financial reports and ledgers, County 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 its 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 OTDA was consistent with the annual Plan amount.

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

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