
**OFFICE OF
THE INSPECTOR GENERAL**

SOCIAL SECURITY ADMINISTRATION

**SINGLE AUDIT OF THE
STATE OF NEW YORK
FOR THE FISCAL YEAR ENDED
MARCH 31, 2003**

January 2005

A-77-05-00006

**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 19, 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, 2003 (A-77-05-00006)

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, 2003. 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. Results of the desk review conducted by the Department of Health and Human Services (HHS) have not been received. We will notify you when the results are received if HHS determines the audit did not meet 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 Department of Social Services, Office of Temporary and Disability Assistance (OTDA) is the New York DDS' parent agency.

The single audit reported that 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

claimed costs in accordance with the plan while awaiting HHS' approval (see Attachment A, pages 1 through 4).

2. Miscoded payroll and voucher expenses in the accounting system which may have resulted in improper charges to various Federal programs, including SSA. The corrective action plan indicated that OTDA will make adjustments to the miscoded vouchers and remind staff of the procedures to correctly code vouchers (see Attachment A, pages 5 through 9).

We recommend that SSA determine whether:

1. Indirect costs charged to the New York DDS during October 2002 through March 2003 were in accordance with the cost allocation plan subsequently approved by HHS, and, if appropriate, collect any unallowable costs.¹
2. OTDA's reviews of miscoded vouchers identified inappropriate charges to the New York DDS during October 2002 through March 2003, and, if appropriate, collect any unallowable costs.²

The single audit also disclosed that amounts on the Quarterly Expenditure Reports were inaccurate. Although this finding was not specifically identified to SSA, it may impact DDS operations. I am bringing this matter to your attention as it represents a potentially serious service delivery and financial control problem for the Agency (see Attachment B, page 1).

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



Patrick P. O'Carroll, Jr.

Attachments

¹ The Office of the Inspector General report *New York Disability Determination Program Indirect Costs* (A-02-04-24017) identified unallowable and improperly allocated indirect costs claimed by the New York DDS during the period October 1999 through September 2002 and recommended corrective action. To avoid recommending duplicate corrective action, we limited this recommendation to October 2002 through March 2003.

² The Office of the Inspector General report *New York Disability Determination Program Indirect Costs* (A-02-04-24017) identified this finding for the period October 1999 through September 2002 and recommended corrective action. To avoid recommending duplicate corrective action, we limited this recommendation to October 2002 through March 2003.

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: 03-10

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 95.507).

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 district costs are assigned to an accumulator code.

The COCACs contained approximately \$743 million in allocated costs covering 80 separate allocation methodologies during the period April 1, 2002 through March 31, 2003. The methodologies were established to allocate overhead costs related to the programs formerly administered by Department of Social Services. Since January 1998, the Office of Temporary and Disability Assistance, the Office of Children and Family Services, and the Department of Health have administered these programs. Effective January 1998, the Offices and Department revised and implemented methodologies to reflect the current organizational structure of the three Human Service agencies. As part of our testwork, we analyzed the dates that the allocation methodologies were federally reviewed and noted that there were 44 separate allocation methodologies with \$382 million in allocated costs that had not yet been approved by the Federal government as of the State fiscal year ended March 31, 2003. As such, the Offices and Department were allocating costs based on not yet approved methodologies.

A similar finding was included in the prior year single audit report on page 32.

Questioned Costs

Cannot be determined

NEW YORK STATE CORRECTIVE ACTION PLAN
Single Audit of Federal Programs for
State Fiscal Year Ended March 31, 2003

State Agency: 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]) State Administrative Matching Grants Food Stamp Program (10.561)
Temporary Assistance for Needy Families (93.558)
Child Support Enforcement (93.563)
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Office of Temporary and Disability Assistance
Office of Children and Family Services
Department of Health

Audit Report Page Reference(s): Finding 03-10
Pages 34-35

I. Type of Finding:

Internal Control with related noncompliance	[]
Internal Control Only (no noncompliance cited)	[]
Other reportable noncompliance (Finding Only)	[X]
Questioned Costs	\$ <u>Can Not Be Determined</u>

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

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 district costs are assigned to an accumulator code.

The COCACs contained approximately \$743 million in allocated costs covering 80 separate allocation methodologies during the period April 1, 2002 through March 31, 2003. The methodologies were established to allocate overhead costs related to the programs formerly administered by Department of Social Services. Since January 1997, the Office of Temporary and Disability Assistance, the Office of Children and Family Services, and the Department of Health have administered these programs. Effective January 1998, the Offices and Department revised and implemented methodologies to reflect the current organizational structure of the three Human Service agencies. As part of our testwork, we analyzed the dates that the allocation methodologies were federally reviewed and noted that there were 44 separate allocation methodologies with \$382 million in allocated costs that had not yet been approved by the Federal government as of the State fiscal year ended March 31, 2003. As such, the Offices and Department were allocating costs based on not yet approved methodologies.

A similar finding was included in the prior year single audit report on page 32.

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.

KPMG is correct that as of the end date of the audit period, some plans were at DCA and had not yet been approved. 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.

A similar finding was in last year's review. DHHS reviewed that finding with the State and in a letter dated July 31, 2003 stated that DHHS "consider(ed) the above audit findings closed."

State Administrative Matching Grants for Food Stamp Program (10.561)
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Social Security-Disability Insurance (96.001)

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

Reference: 03-11

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 57 employees with total salaries of \$2,979,562 from the PACS. We noted 3 individuals, with total annual salaries of \$201,900, were coded to the incorrect accumulator code on the PACS. The personal service questionnaires returned by the employees supported a different accumulator code than the individual charged on their time sheet and on the PACS. In addition, we noted 1 time sheet was missing the accumulator code, however, the accumulator code recorded in PACS was appropriate.

In addition, we selected a sample of 80 vouchers for a total of \$16,950,014. During our testwork we noted 6 vouchers totaling \$71,384 that were coded to the incorrect accumulator code or were determined to be neither necessary nor reasonable to the program.

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

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, 2003

State Agency: Office of Children and Family Services
Single Audit Contact: Bob Metacarpa
Title: Single Audit Liaison
Telephone: (518) 474-2553
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Federal Program(s) (CFDA #[s]) State Administrative Matching Grants for Food Stamp Program (10.561)
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Office of Temporary and Disability Assistance
Office of Children and Family Services
Department of Health

Audit Report Page Reference(s): Finding 03-11
Pages 36-37

I. Type of Finding:

Internal Control with related noncompliance	[]
Internal Control Only (no noncompliance cited)	[X]
Other reportable noncompliance (Finding Only)	[]
Questioned Costs	\$ <u>Can Not Be Determined</u>

II. 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.

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 of the 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 57 employees with total salaries of \$2,979,562 from the PACS. We noted 3 individuals, with total annual salaries of \$201,900, were coded to the incorrect accumulator code on the PACS. The personal service questionnaires returned by the employees supported a different accumulator code than the individual charged on their time sheet and on the PACS. In addition, we noted 1 time sheet was missing the accumulator code.

In addition, we selected a sample of 80 vouchers for a total of \$16,950,014. During our testwork we noted 6 vouchers totaling \$71,384 that were coded to the incorrect accumulator code or were determined to be neither necessary nor reasonable to the program.

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

Recommendation:

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

III. Agency Response:

The Department of Health and Human Services (DHHS) reviewed the Personal Service portion of the finding, discussed the procedures with the Office of Children and Family Services (OCFS) and in a letter to OCFS on July 31, 2003 stated that DHHS "consider(ed) the above audit findings closed."

Personal Service Finding

With regard to the current year's findings, no OCFS staff were found to be incorrectly charged. However, the audit finding states that "we noted that all of the Office of Children and Family timesheets were missing the appropriate language certifying that the correct accumulator code was being charged." This is an incorrect observation. The supervisor is required to certify that all the information on the employee's timesheet is true and accurate. This includes the accumulator code. While KPMG may not like the brevity of the wording, the certification is indeed provided on the timesheet.

Non-Personal Service (NPS) Finding

Of the 36 OCFS vouchers/journal vouchers, five OCFS vouchers require adjustments. As stated below, OCFS will take steps to further strengthen procedures in select areas.

The following provides OCFS response to each incorrect NPS finding.

- Vouchers 2415010 and 2415004 - These vouchers were for the rent costs of Capital View Park and Kappa Associates. Inadvertently, the charges were not assigned in accordance with the current space allocations. Adjustments will be made and procedures strengthened.
- Voucher 2415095 - Rent voucher to Atrium Associates. Again, the charges were not assigned in accordance with the current space allocations. Adjustments will be made and procedures strengthened.
- Voucher 2460803 - The charges on this voucher are the 10% state share match in the E-Rate Program. The accumulator code should have been LOC however. An adjustment will be made.
- Voucher 2456654 - This voucher was for licenses for PMP expended from enterprise funds in the OTDA appropriation. Accordingly, some confusion occurred and an incorrect accumulator code (020 rather than 021) was used. The appropriate adjustment will be made so that the OCFS administrative overhead is used rather than OTDA administrative overhead. Procedures will be developed to avoid this confusion should any similarly unique transactions occur in the future.

Of the 44 OTDA vouchers, one requires adjustment. OTDA will undertake that adjustment and will remind staff of the procedures to correctly code vouchers.

Temporary Assistance for Needy Families Program (93.558)

Office of Temporary and Disability Assistance

Reference: 03-31

Requirement

Financial data disclosed in the Quarterly Expenditure Reports (QER's) must be supported by accurate, current and complete source documentation (45 CFR 74.61 (a & g)).

Finding

Each quarter the Office compiled the Quarter Expenditure Report (QER) for the Temporary Assistance for Needy Families Program (TANF). As part of our audit procedures, we agreed the information contained in the QER to the supporting documentation for the quarter ending December 31, 2002.

During our review, we noted a calculation error in a spreadsheet, which resulted in a difference in amounts reported in the QER under the fiscal year 2003 Federal Funds column, Line M from the amounts contained in the supporting documentation. This column listed program expenditures to be reimbursed through federal funding and were \$12,910,755 higher than the supporting documentation.

In November 2003, the amount was adjusted on the QER for the quarter ending September 30, 2003, which is in the same Federal fiscal year in which the error occurred.

Recommendation

We recommend that the Office establish policies and procedures to ensure compliance with the above requirement.

Related Noncompliance

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

Questioned Costs

\$12,910,755

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.