

The single audit reported that the DDS charged indirect costs to various Federal agencies, including SSA, based on cost allocation plan methodologies that are pending approval by HHS' Division of Cost Allocation (Attachment A, Pages 1 through 7). We recommended corrective action to SSA on this finding in a March 2010 report.¹ However, SSA has not provided documentation of any corrective action taken on the prior finding. Further, we are currently conducting an audit of the New York DDS indirect costs, which covers the same period as the single audit.² The current audit will review the allowability of indirect costs claimed by the New York DDS. Accordingly, we are not making any recommendations.

Please send copies of the final Audit Clearance Document to Shannon Agee. If you have questions, contact Shannon Agee at (816) 221-0315, extension 1537.



Patrick P. O'Carroll, Jr.

Attachments

¹ SSA, OIG, Management Advisory Report, *Single Audit of the State of New York for the Fiscal Year Ended March 31, 2008* (A-77-10-00004), March 2010.

² *New York State Disability Determination Services Indirect Costs* (A-02-11-11135).

Federal Agencies: United States Department of Agriculture
United States Department of Health and Human Services

Programs: State Administrative Matching Grants for the Supplemental Nutrition Assistance 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)

Award numbers: (10.561) - 2006IS802644; 2006IS803644; 2006IS251444;
2006IS251944; 2006IS252244; 20064E251844;
2007IS251444; 2007IS251944; 2007IS251144;
20086E251844; 2008CE251844; 2008IE251844;
2008IS251944; 2008IS252044; 2009IS251444;
2009IS252044
(93.558) - 0G0401NYTANF; 0G0501NYTANF; 0G0602NYTANF;
0G0702NYTANF; 0G0802NYTANF; 0G0902NYTANF
(93.563) - 0G0404NY4004; 0G0504NY4004; 0G0604NY4004;
0G0704NY4004; 0G0804NY4004; 0G0904NY4004
(93.568) - 0G06B1NYLIEA; 0G07B1NYLIEA; 0G08B1NYLIEA;
0G09B1NYLIEA
(93.575) - 0G0601NYCCDF; 0G0701NYCCDF; 0G0702NYTANF;
0G0801NYCCDF; 0G0901NYCCDF; 0G0602NYTANF;
0G0802NYTANF; 0G0902NYTANF
(93.596) - 0G0701NYCCDF; 0G0801NYCCDF; 0G091NYCCDF
(93.658) - 0G0301NY1401; 0G0401NY1401; 0G0501NY1401;
0G0601NY1401; 0G0701NY1401; 0G0801NY1401;
0G0901NY1401
(93.659) - 0G0301NY1407; 0G0601NY1407; 0G0701NY1407;
0G0801NY1407; 0G0901NY1407
(93.667) - 0G0701NYSOSR; 0G0801NYSOSR; 0G0702NYTANF;
0G0802NYTANF

Award numbers (Continued):

(93.778) - 050405NY5048; 050605NY5048; 050705NY5048;
050805NY5048; 050905NY5048; 050705NY5028;
050805NY5028; 050905NYARRA; 050905NY5028;
050405NY5028; 050505NY5028; 050605NY5028
(96.001) - 040504NYDI00; 040604NYDI00; 040604NYDI02;
040704NYDI00; 040704NYDI02; 040804NYDI00;
040904NYDI00

Award years: (10.561) - 2006; 2007; 2008; 2009
(93.558) - 2004; 2005; 2006; 2007; 2008; 2009
(93.563) - 2004; 2005; 2006; 2007; 2008; 2009
(93.568) - 2006; 2007; 2008; 2009
(93.575) - 2006; 2007; 2008; 2009
(93.596) - 2007; 2008; 2009
(93.658) - 2003; 2004; 2005; 2006; 2007; 2008; 2009
(93.659) - 2003; 2006; 2007; 2008; 2009
(93.667) - 2007; 2008
(93.778) - 2004; 2005; 2006; 2007; 2008; 2009
(96.001) - 2005; 2006; 2007; 2008; 2009

State Agency: Office of Children and Family Services

Reference: 09-05

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 U.S. Department of Health and Human Services (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 (OMB) 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 D; 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

On a quarterly basis, the Office of Children and Family Services creates 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 \$1.4 billion in allocated costs covering 82 separate allocation methodologies during the period April 1, 2008 through March 31, 2009. The methodologies were established to allocate overhead costs related to the programs formerly administered by the Department of Social Services (DSS). Effective October 1, 1996, the Department of Health (DOH) 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 (OCFS) and the Office of Temporary and Disability Assistance (OTDA), 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 approved and noted that there were 32 separate allocation methodologies with approximately \$243 million in allocated costs related to the Office of Children and Family Services and approximately \$331 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, 2009. Federal regulation allows the Offices to submit claims derived from cost allocation methodologies that have been submitted to the Federal government but are pending approval. The table below details how long cost allocation plans (CAPs) have been awaiting Federal approval and how long the Offices have been allocating costs based on the unapproved CAPs.

| <u>Year CAP was submitted</u> | <u>Number of CAPS Submitted for Approval</u> |
|-------------------------------|--|
| 1999 | 5 |
| 2000 | 3 |
| 2002 | 6 |
| 2003 | 5 |
| 2004 | 1 |
| 2005 | 2 |
| 2006 | 5 |
| 2007 | 4 |
| 2008 | <u>1</u> |
| | <u>32</u> |

The 82 total allocation methodologies, as described above, only include active methodologies that had costs charged during the period April 1, 2008 through March 31, 2009. The amount charged to Federal programs as the Federal share of expenditures amounted to \$574 million of the total \$1.4 billion in allocated costs. Due to the number of allocation methodologies, complex methodologies that charge other methodologies, and the fact that the Federal share of reimbursement differs by program, we cannot determine the Federal share of costs charged to Federal programs.

A similar finding was included in the prior year single audit report as finding 08-10 on page 51.

Recommendation

We recommend that the Office continue to work with the U.S. Department of Health and Human Services to timely approve cost allocation plans.

Related Noncompliance

Federal regulations allow for the Office to allocate costs based on the cost allocation plan submitted but not yet approved. However, if the plans are ultimately not approved, costs allocated may be determined to be unallowable and Federal funds may be required to be returned to the Federal government.

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, 2009**

State Agency: Office of Children and Family Services

Single Audit Contact: Ralph Timber

Title: Management Specialist 2

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Federal Program(s) (CFDA # [s]): State Administrative Matching Grants for 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 Grants (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)

Audit Report Reference: 09-05

I. 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) [X]
Other reportable noncompliance (Finding Only) []

Questioned Costs Cannot be determined

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

On a quarterly basis, the Office of Children and Family Services creates 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 \$1.4 billion in allocated costs covering 82 separate allocation methodologies during the period April 1, 2008 through March 31, 2009. The methodologies were established to allocate overhead costs related to the programs formerly administered by the Department of Social Services (DSS). Effective October 1, 1996, the Department of Health (DOH) 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 (OCFS) and the Office of Temporary and Disability Assistance (OTDA), 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 the testwork, the auditors analyzed the dates that the allocation methodologies were Federally approved and noted that there were 32 separate allocation methodologies with approximately \$243 million in allocated costs related to the Office of Children and Family Services and approximately \$331 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, 2009. Federal regulation allows the Offices to submit claims derived from cost allocation methodologies that have been submitted to the Federal government but are pending approval. The table below details how long cost allocation plans (CAPs) have been awaiting Federal approval and how long the Offices have been allocating costs based on the unapproved CAPs.

| <u>Year CAP was submitted</u> | <u>Number of CAPS Submitted for Approval</u> |
|-------------------------------|--|
| 1999 | 5 |
| 2000 | 3 |
| 2002 | 6 |
| 2003 | 5 |
| 2004 | 1 |
| 2005 | 2 |
| 2006 | 5 |
| 2007 | 4 |
| 2008 | <u>1</u> |
| | <u>32</u> |

The 82 total allocation methodologies, as described above, only include active methodologies that had costs charged during the period April 1, 2008 through March 31, 2009. The amount charged to Federal programs as the Federal share of expenditures amounted to \$574 million of the total \$1.4 billion in allocated costs. Due to the number of allocation methodologies, complex methodologies that charge other methodologies, and the

fact that the Federal share of reimbursement differs by program, we cannot determine the Federal share of costs charged to Federal programs.

A similar finding was included in the prior year single audit report as finding 08-10 on page 51.

III. Agency Response:

The Office of Children and Family Services (OCFS) files plans for both OCFS and the Office of Temporary and Disability Assistance (OTDA) on a timely basis as required by regulation and works with the US Department of Health and Human Services (DHHS) Division of Cost Allocation (DCA) to get plans approved. As noted in the finding, Federal regulations require the filing of cost allocation plans and then allows states to claim against the filed plans, even without formal approval.

The Federal regulations also require the US DHHS-DCA to notify the State within 60 days of receipt of the cost allocation plan or amendment advising as to whether the plan is approved or disapproved, advise the State as to changes that must be made to the plan or amendment to make it acceptable, or request the State provide additional information for evaluation purposes.

It should be noted that OCFS received US DHHS-DCA approval dated October 28, 2009 of 7 cost allocation plans with an effective date of October 1, 2000. They are:

Office of Children and Family Services

| | |
|-------------------------|-----------|
| Mainframe Operations | Sec.II.13 |
| Network Operations | Sec.II.14 |
| Open Systems Operations | Sec.II.15 |

Office of Temporary and Disability Assistance

| | |
|-------------------------|-----------|
| Mainframe Operations | Sec.II.32 |
| Network Operations | Sec.II.33 |
| Open Systems Operations | Sec.II.34 |
| Terminal Support | Sec.II.35 |

Overview of the Office of the Inspector General

The Office of the Inspector General (OIG) is comprised of an Office of Audit (OA), Office of Investigations (OI), Office of the Counsel to the Inspector General (OCIG), Office of External Relations (OER), and Office of Technology and Resource Management (OTRM). To ensure compliance with policies and procedures, internal controls, and professional standards, the OIG also has a comprehensive Professional Responsibility and Quality Assurance program.

Office of Audit

OA conducts 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 reviews and program evaluations on issues of concern to SSA, Congress, and the general public.

Office of Investigations

OI conducts investigations 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 liaison to the Department of Justice on all matters relating to the investigation of SSA programs and personnel. OI also conducts joint investigations with other Federal, State, and local law enforcement agencies.

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OCIG provides independent legal advice and counsel to the IG on various matters, including statutes, regulations, legislation, and policy directives. OCIG 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. Also, OCIG administers the Civil Monetary Penalty program.

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Office of Technology and Resource Management

OTRM supports OIG by providing information management and systems security. OTRM also coordinates OIG's budget, procurement, telecommunications, facilities, and human resources. In addition, OTRM is the focal point for OIG's strategic planning function, and the development and monitoring of performance measures. In addition, OTRM receives and assigns for action allegations of criminal and administrative violations of Social Security laws, identifies fugitives receiving benefit payments from SSA, and provides technological assistance to investigations.