

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**REVIEW OF  
JOURNAL VOUCHER COST TRANSFERS  
PROCESSED BY THE  
NEW YORK STATE  
DEPARTMENT OF SOCIAL SERVICES  
ALBANY, NEW YORK**

**FOR THE PERIOD  
APRIL 1, 1992 THROUGH MARCH 31, 1994**



**JUNE GIBBS BROWN  
Inspector General**

**OCTOBER 1996  
A-02-95-02004**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office Of Inspector General  
Office Of Audit Services

Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, NY 10278

October 2, 1996

CIN: A-02-95-02004

Mr. Brian J. Wing  
Acting Commissioner  
New York State Department  
of Social Services  
40 North Pearl Street  
Albany, New York 12243

Dear Mr. Wing:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' (OAS') report entitled "Review of Journal Voucher Cost Transfers Processed by the New York State Department of Social Services." A copy of this report will be forwarded to the action official named below for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act which the Department chooses to exercise. (See 45 CFR Part 5.)

Page 2 - Mr. Brian J. Wing

To facilitate identification, please refer to Common Identification Number A-02-95-02004 in all correspondence related to this report.

Sincerely yours,

A handwritten signature in black ink, appearing to read "John Tournour", with a long, sweeping horizontal stroke extending to the right.

John Tournour  
Regional Inspector General  
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Mr. Vincent Bamundo  
Director, Division of Cost Allocation  
Department of Health and Human Services  
26 Federal Plaza Room 41-122  
New York, NY 10278



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Our Reference: Common Identification No. A-02-95-02004

Mr. Brian J. Wing  
Acting Commissioner  
New York State Department  
of Social Services  
40 North Pearl Street  
Albany, New York 12243

Dear Mr. Wing:

This report provides you with the results of our review of journal voucher cost transfers processed by the New York State Department of Social Services (NYSDSS) during the period April 1, 1992 through March 31, 1994. This review was requested by the Department of Health and Human Services, Division of Cost Allocation based on weaknesses cited in New York State's single audit reports for fiscal years (FYs) 1993 and 1994 concerning the need for better internal control and documentation for reassigned costs. The objective of our review was to determine whether the costs transferred to federally funded programs were properly chargeable and adequately documented.

Our review focused on journal vouchers charged through the Central Office Cost Allocation Claim (COCAC), which transferred costs from either a nonfederal account to a Federal account or from one Federal account to another Federal account with a greater Federal financial participation (FFP) rate of 10 percent or more. During the 2-year review period, NYSDSS processed 283 journal voucher transfers which met our review criteria. The 283 transfers included costs totaling \$43,335,984.

## **SUMMARY**

We examined 64 journal vouchers which transferred costs totaling \$15,987,791 in the period covered by our review. In general, the transfers we reviewed were adequately documented and proper. However, we found posting errors on 11 of the 64 transfers reviewed which

resulted in overcharges of \$466,268 to Federal programs (\$158,911 Federal share), as detailed in the **FINDINGS AND RECOMMENDATIONS** section of this report. We also found during this review that NYSDSS charged the Federal Government \$8,872 (\$4,913 Federal share) of unallowable interest costs, as discussed in the **OTHER MATTERS** section of this report.

Overall, we recommend that NYSDSS refund \$163,824 to the Federal Government. Further, we recommend that NYSDSS (1) closely review the appropriateness of each future cost transfer before reallocating the costs and (2) refund the unallowable interest costs claimed subsequent to our audit period.

The NYSDSS responded to our draft audit report on September 16, 1996 (Appendix B). In its response, NYSDSS agreed with our findings and recommendations except for the unallowable interest costs.

## ***INTRODUCTION***

### ***Background***

The NYSDSS Bureau of State Financial Operations plans, executes and controls all State purpose expenditures including processing vouchers; maintaining the general ledger; developing required data systems to support fiscal operations such as the Claims Processing System; and establishing effective and realistic cost allocation plans for all central office functions eligible for Federal reimbursement.

The NYSDSS uses COCAC to capture personal services, non-personal services and training costs for allocation to the various programs. The COCAC involves accumulating direct costs and allocating indirect costs through program allocation accounts.

All NYSDSS central office and certain local district costs are assigned an accumulator code. The accumulator codes are utilized to identify the expenditures which are applicable to the various programs administered by NYSDSS. Costs are reassigned from one accumulator code to another for several reasons, including the correction of errors in the original recordation and the need to reallocate costs aggregated under one code (e.g., a service center) to the proper program.

The transfers are processed in one of two ways. On-line transfers are entered directly into the CAAR002 report (General Ledger). These reassignments are either intradepartmental charges or other-State-agency charges and are usually supported by journal transfer forms. Charges are also manually reassigned to different accumulator codes as a result of data entry and coding errors.

Office of Management Budget (OMB) Circular No. A-87 establishes the Federal cost principles for State and local governments. Attachment A, Paragraph C.2.b of the Circular states:

Any cost allocable to a particular grant or cost objective under the principles provided for in this Circular may not be shifted to other Federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons.

### **Objectives, Scope and Methodology**

The primary objective of our review was to determine if NYSDSS had adequate data available to explain and document the propriety of personal and non-personal service costs that were charged to Federal programs through COCAC during the period April 1, 1992 to March 31, 1994 by means of journal voucher transfers.

To accomplish our objective we:

- Met with NYSDSS officials and representatives from Klynveld Peat Marwick Goerdeler (KPMG) to discuss the findings relating to the reassignment of costs which were contained in the FYs 1993 and 1994 single audit reports.
- Reviewed the audit working papers prepared by KPMG covering its review of reassigned costs for FYs 1993 and 1994.
- Obtained and reviewed NYSDSS' written policies and procedures for processing journal voucher transfers.
- Determined the total number of on-line and manual cost transfers in excess of \$10,000 that were processed by NYSDSS in FYs 1993 and 1994.
- Scheduled all the FYs 1993 and 1994 journal vouchers which represented transfers from a nonfederal account to Federal account or transfers from one Federal account to another Federal account with more than a 10 percent increase in the FFP rate.
- Selected and reviewed a sample of on-line and manual transfers that were processed by NYSDSS in our audit period.

As part of our audit planning, we determined our audit universe of on-line transfers as follows:

1. We listed all on-line transfers in excess of \$10,000 that were processed in FYs 1993 and 1994.
2. From this list, we eliminated all transfers relating to the following:
  - Training contracts that were reviewed under a separate audit
  - Federally capped block grants
  - Immaterial travel charges
  - Nonapplicable New York State tax and finance charges
  - Programs not applicable to COCAC
3. We included telephone/telecommunication transfers under \$10,000 in order to obtain a complete listing of all monthly charges made during our audit period.

Our audit universe of manual transfers consisted of all transfers that were at least \$10,000 in which the transfer resulted in a greater than 10 percent increase in FFP percentage.

Based on the above criteria, we determined that NYSDSS processed 223 on-line transfers totaling \$40,454,659 and 60 manual transfers totaling \$2,881,325. We further broke down our universes between intradepartmental and other-State-agency transfers as follows:

	ON-LINE		MANUAL	
	NUMBER	AMOUNT	NUMBER	AMOUNT
Intradepartmental	31	\$2,871,058	46	\$2,295,057
Other-State-Agencies	192	\$37,583,601	14	\$586,268
Total	223	\$40,454,659	60	\$2,881,325

From our universes, we judgmentally selected a sample of 41 on-line transfers totaling \$13,985,318 and 23 manual transfers totaling \$2,002,473, which are broken down between intradepartmental and other-State-agency transfers as follows:

	ON-LINE		MANUAL	
	NUMBER	AMOUNT	NUMBER	AMOUNT
Intradepartmental	16	\$2,455,065	18	\$1,703,374
Other-State-Agencies	25	\$11,530,253	5	\$299,099
Total	41	\$13,985,318	23	\$2,002,473

Our review was conducted in accordance with generally accepted government auditing standards. It included such tests and other auditing procedures that we considered necessary in the circumstances. In addition, because this review was financially related, we performed a review of the internal control structure that we determined to be managerially significant and important to the achievement of the specific audit objectives. Our review of internal controls included tests and procedures that we considered necessary to evaluate if NYSDSS had adequate documentation to explain the propriety of personal and non-personal service costs that were charged to Federal programs by means of journal voucher transfers. In order to plan the audit and determine the nature, timing and extent of tests to be performed, we obtained an understanding of the internal control structure.

To facilitate this understanding of the internal control structure, we held discussions with NYSDSS officials; analyzed organizational charts; prepared flow charts; and reviewed New York State's single audit reports for FYs 1993 and 1994 and Federal and State regulations regarding the transfer of expenditures.

We classified significant internal control structure, policies and procedures in the following categories:

- Intradepartmental on-line journal transfers
- Intradepartmental manual journal transfers
- Other-State-agency on-line journal transfers
- Other-State-agency manual journal transfers

We tested selected transfers and assessed control risk as generally adequate for each of the categories. However, based on the results of the survey, we decided to perform substantive testing.

We found that the items tested were in compliance with applicable laws, regulations, policies and procedures except for the matters discussed in the **FINDINGS AND RECOMMENDATIONS** and **OTHER MATTERS** sections of this report. With respect to items not tested, nothing came to our attention that caused us to believe that untested items were not in compliance with applicable laws and regulations.

Our audit field work was performed at NYSDSS and the Office of General Services (OGS) in Albany, New York during the period March 1995 to November 1995.

## ***FINDINGS AND RECOMMENDATIONS***

In general, we found that personal and non-personal service costs charged to Federal programs by means of journal voucher transfers were adequately documented and proper. However, we found posting errors on 11 of the 64 transfers we reviewed as follows:

- The NYSDSS processed two intradepartmental on-line journal transfers that charged postage expense of \$80,000 and personal service costs of \$73,795 to the wrong accumulator codes. Consequently, the Federal Government was overcharged \$33,636.
- The NYSDSS processed seven intradepartmental manual journal transfers that charged \$41,832 in maintenance costs and \$167,010 for the cost of processing Medicaid notification letters to the wrong accumulator codes. As a result, NYSDSS overcharged the Federal Government \$51,928.
- The NYSDSS processed one other-State-agency on-line journal transfer that double-billed the Federal Government \$58,476 (\$41,419 Federal share).
- The NYSDSS processed one other-State-agency manual transfer that charged a fringe benefit payment of \$45,155 to the wrong accumulator code. These costs were improperly claimed to the Federal Government and resulted in an overcharge of \$31,928.

Overall, the posting errors on the 11 transfers resulted in overcharges of \$466,268 (\$158,911 Federal share) to Federal programs. The specific transfers at issue are detailed below and the Federal share amounts of the resultant overcharges are summarized by program in Appendix A of this report.

**INTRADEPARTMENTAL ON-LINE JOURNAL TRANSFERS**

1. On-Line Transfer No. 27872, \$80,000, Processed 01/27/93

The NYSDSS processed an on-line transfer that charged \$80,000 in postage expense to the wrong accumulator code. The costs were originally charged to accumulator code 004 (Division of Medicaid-All Other - FFP rate of 45.2 percent). The transfer moved the costs to accumulator code 015 (Division of Medicaid-MMIS Operations - FFP rate of 69.5 percent). We determined that the charge was administrative in nature and should have remained under accumulator code 004 in accordance with NYSDSS' approved cost allocation plan. The overcharge to the Federal Government was \$20,080.

2. On-Line Transfer No. 36461, \$73,795, Processed 07/09/93

The NYSDSS processed an on-line transfer that transferred \$73,795 in personal service costs from accumulator code 001 (Economic Security - FFP rate of 51.94 percent) to accumulator code 082/089 (Child Support State Operations - 66.0 percent). We determined that this transfer was improper because the personal service costs were originally allocated to Economic Security based on NYSDSS' approved cost allocation methodology and cannot be reallocated after-the-fact. This transfer resulted in an overcharge to the Federal Government of \$13,556. This adjustment included fringe benefits of \$4,072 calculated based on NYSDSS' fringe benefit rate of 30.04 percent.

**INTRADEPARTMENTAL MANUAL JOURNAL TRANSFERS**

1. Manual Transfer No. 1137736, \$21,163, Processed 04/92
2. Manual Transfer No. 1137737, \$10,669, Processed 04/92
3. Manual Transfer No. 1137729, \$10,000, Processed 04/92

In processing these manual transfers, NYSDSS charged \$41,832 in maintenance costs to the wrong accumulator code. The costs were originally charged to accumulator code 002 (Division of Services - FFP rate of 19.64 percent) and then transferred to accumulator code 010 (Audit and Quality Control - FFP rate of 50.56 percent). We determined that NYSDSS transferred the charges to this incorrect program due to funding problems. As a result, the Federal Government was overcharged \$12,140, which is summarized by voucher number as follows:

1137736	\$6,141
1137737	\$3,096
1137729	\$2,903

4. Manual Transfer No. 2700939, \$57,425, Processed 06/92
5. Manual Transfer No. 2700940, \$22,870, Processed 06/92

6. Manual Transfer No. 2804078, \$28,905, Processed 03/93
7. Manual Transfer No. 3800562, \$57,810, Processed 05/93

The NYSDSS processed four manual transfers that charged \$167,010 for the cost of processing Medicaid notification letters to the wrong accumulator code. The costs were originally charged to accumulator code 004 (Division of Medicaid - All Other - FFP rates of 45.07, 45.07, 45.20 and 45.02 percent). The transfers moved the costs to accumulator code 015 (Division of Medicaid - MMIS Operations - FFP rates of 66.41, 66.41, 69.50 and 69.80 percent). We determined that these costs were administrative in nature and should have remained under accumulator code 004 at the lower FFP rate in accordance with NYSDSS' approved cost allocation plan. These transfers resulted in an overcharge to the Federal Government of \$39,788, which is summarized by voucher number as follows:

2700939	\$12,733
2700940	\$ 5,071
2804078	\$ 7,255
3800562	\$14,729

#### **OTHER-STATE-AGENCY ON-LINE JOURNAL TRANSFER**

1. On-Line Transfer No. 36929, \$58,476, Processed 09/09/93

The NYSDSS processed an on-line transfer that double-billed the Federal Government \$58,476 (\$41,419 Federal share) for office space used by the Commission for the Blind and Visually Handicapped. We determined that OGS billed the Federal Government for the same office space through the Statewide Cost Allocation Claim and then directly through COCAC.

#### **OTHER-STATE-AGENCY MANUAL JOURNAL TRANSFER**

1. Manual Transfer No. 27995, \$45,155, Processed 02/93

The NYSDSS processed a manual journal transfer that charged a fringe benefit payment of \$45,155 to the wrong accumulator code. Instead of charging accumulator code FBP (Fringe Benefit Payment), the amount was charged to accumulator code 006 - Office of Human Resource Development. These costs were improperly claimed to the Federal Government and resulted in an overcharge of \$31,928.

## ***Recommendations***

We recommend that NYSDSS:

1. Refund \$158,911 to the Federal Government.
2. Closely review the appropriateness of each future cost transfer before reallocating the costs.

### **NYSDSS Comments**

The NYSDSS concurred with our recommendations to refund \$158,911 to the Federal Government for posting errors found on our review and agreed to closely examine the appropriateness of each future cost transfer.

## ***OTHER MATTERS***

During our review, we identified a NYSDSS contract with Eastern Message, Inc. for the installation of telecommunication equipment. According to the terms of the contract, NYSDSS had the option of amortizing \$396,260 of installation costs over a 24-month period with no interest or amortizing the \$396,260 over a 60-month period with interest. The NYSDSS elected to amortize \$418,440 over a 60-month period which included \$396,260 in principal and \$22,180 in interest. These costs were allocated and claimed to Federal programs through accumulator code 063 (Telecommunications). Of the \$22,180 in interest, \$8,872 was allocated and claimed to Federal programs during our audit period April 1, 1992 through March 31, 1994.

For the review period, the cost principles contained in OMB Circular No. A-87 specified that interest costs were unallowable for Federal reimbursement (See OMB Circular No. A-87 Attachment B Paragraph D.7).

***Recommendations***

We recommend that NYSDSS:

1. Make an adjustment for the interest applicable to our 2-year audit period amounting to \$8,872 (\$4,913 Federal share).
2. Refund unallowable interest costs claimed under this contract subsequent to our audit period.

**NYSDSS Comments**

The NYSDSS did not agree with our recommendations relating to the unallowable interest costs claimed. The NYSDSS stated that this issue was similar to the interest issue raised in a past audit involving Certificates of Participation, which is currently pending before the United States District Court in State v. Shalala, 95 CV 10259 (SAS). It is NYSDSS' position that interest costs are allowable for Federal reimbursement.

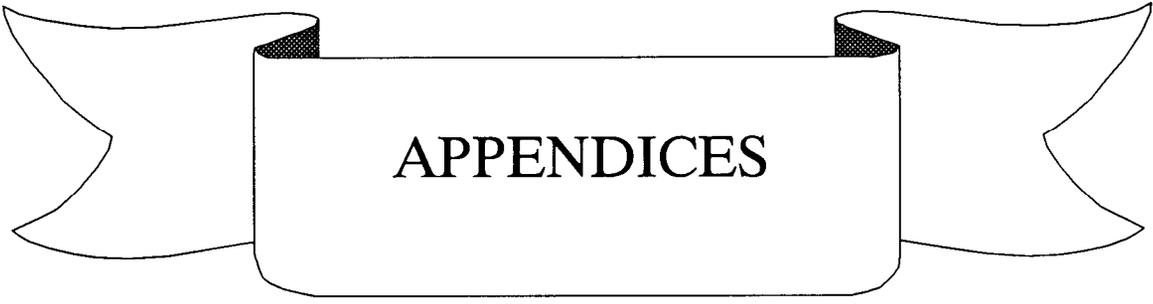
**Office of Inspector General Response**

Federal regulations applicable to our audit period clearly stipulated that interest costs were unallowable for Federal reimbursement. Consequently, we continue to recommend that NYSDSS refund \$4,913 of interest costs claimed during our audit period and unallowable interest costs claimed under this contract subsequent to our audit period.

Sincerely yours,



John Tournour  
Regional Inspector General  
for Audit Services



APPENDICES



DEPARTMENT OF SOCIAL SERVICES

40 NORTH PEARL STREET, ALBANY, NEW YORK 12243-0001

BRIAN J. WING  
Acting Commissioner

SEP 16 1996  
OFFICE OF AUDIT  
NEW YORK REGIONAL OFFICE

SEP 21 1996



DAVID P. AVENIUS  
Deputy Commissioner  
Management Support and  
Quality Improvement

September 16, 1996

Mr. John Tournour  
Regional Inspector General  
Audit Services  
DHHS Office of Inspector General  
Region II  
Jacob K. Javits Federal Building  
26 Federal Plaza  
New York, New York 10278

Re: Review of Journal Voucher Cost  
Transfers Processed by NYSDSS  
(A-02-95-02004) 96-020

Dear Mr. Tournour:

We reviewed your report on journal voucher cost transfers and the following are our comments on its recommendations.

Recommendation: Refund \$158,911 to the Federal Government.

Response: We agree with the auditors that there were posting errors on 11 of the 64 journal voucher transfers reviewed and we will make the necessary adjustments to return the Federal share of \$158,911.

Recommendation: Closely review the appropriateness of each future cost transfer before reallocating the costs.

Response: We agree.

Recommendation: Make an adjustment for the interest applicable to our two-year audit period amounting to (\$4,913 Federal share).

Refund unallowable interest costs claimed under this contract subsequent to our audit period.

- 2 -

Response: The interest issue contained in this report is similar to the interest issue raised in past audits involving COPS contracts, which is pending before the United States District Court in State v. Shalala, 95 CV 10259 (SAS). The Department's position is that interest costs are allowable for Federal reimbursement.

Thank you for sharing the report with us.

Sincerely,

A handwritten signature in black ink, appearing to read "D. P. Avenius", with a long horizontal flourish extending to the right.

David P. Avenius  
Deputy Commissioner  
Division of Management Support  
and Quality Improvement