

*State of New York*  
*Office of the State Comptroller*  
*Division of Management Audit*

**DEPARTMENT OF SOCIAL SERVICES**

**CONTROLS OVER CERTAIN LOCAL  
DISTRICT STATE AID CLAIMS**

**REPORT 95-S-29**



*H. Carl McCall*  
*Comptroller*



# State of New York Office of the State Comptroller

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**Division of Management Audit**

**Report 95-S-29**

Mr. Brian Wing  
Acting Commissioner  
Department of Social Services  
40 North Pearl Street  
Albany, NY 12243

Dear Mr. Wing:

The following is our report on Department of Social Services controls relating to certain State aid claims submitted by local social services districts.

This audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V of the State Constitution and Section 8, Article 2 of the State Finance Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller  
Division of Management Audit*

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# Executive Summary

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## Department of Social Services Controls Over Certain Local District State Aid Claims

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### Scope of Audit

Social services programs in New York State are carried out by 58 local social services districts (Districts): the 57 counties and New York City. The cost of operating these programs is borne, in various ratios, by the local, State and Federal governments. Article 5, Title 2 of the Social Services Law provides that Districts submit to the State Department of Social Services (Department) claims for reimbursement of the State and Federal shares of expenditures on these programs. We reviewed selected State aid claiming practices during the period April 1, 1993 through April 30, 1995. We tested expenditures incurred during the State fiscal year ended March 31, 1994. During that period, approximately \$6.9 billion was claimed for reimbursement by the Districts' for public assistance and other related program expenditures. Our audit focused on payments made by the Nassau and Suffolk Districts to vendors who provided certain services, such as, day care, utilities and housing. During the 1993-1994 fiscal year, Nassau expended \$35.4 million on such items and Suffolk expended \$63.8 million.

Our audit addressed the following questions related to the State aid claiming process at the Nassau and Suffolk Districts:

- ! Does the Department adequately monitor District claims for reimbursement of State and Federal shares of social services program expenditures?
- ! Do the Nassau and Suffolk Districts adequately control certain expenditures?

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### Audit Observations and Conclusions

Generally, we found that the Department has implemented an internal control system which, if followed by the Districts, provides adequate control of District claims for reimbursement. However, we found that Nassau was not following some of these controls. We also found that Department procedures relating to the receipt of certain goods and services could be improved.

The Department controls the process of claiming State aid by separating the processes of approving and paying client benefits, incorporating automated checks and edits into the computer system, and conducting multi-level reviews. Before any transactions can be processed, caseworkers must authorize each client to receive particular benefits. Each authorization is required to be reviewed and signed by the caseworkers' supervisors before it is sent for entry on the Welfare Management System (WMS).

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At the Nassau District, we found that the service authorization forms—which are used to authorize client benefits, make changes in benefits, re-certify a client to continue receiving benefits, or remove a client's benefits—were frequently not being used properly. Since information on this form is entered onto the WMS, it represents the basic document for payments of public assistance benefits. In a sample of 27 case files that we requested, we found that 10 of the 27 required authorization forms either were incomplete, had been signed and authorized by the same person, or were missing altogether. These deficiencies circumvent the controls established by the Department over this process and make it possible for an individual to enter unauthorized transactions. We recommended that Nassau officials take action to ensure that authorization forms are properly completed and maintained. (pp. 4-5)

One effective internal control over purchasing goods and services includes a requirement that the recipient sign a copy of the vendor invoice, thereby verifying that the goods or services were actually received. During our review of vouchers at Suffolk, we found that the clients were not signing for the receipt of such goods as fuel oil or for services such as transportation costs to move clients to new residences or costs to enroll a client's child in summer camp. We subsequently determined that Department procedures specifically exempt the Districts from the requirement that client signatures be obtained to document the receipt of certain types of goods and services. To obtain reasonable assurance that payments are made only for goods and services actually received, we recommended that the Department revise its procedures to require clients to sign for all goods and services, including those items currently exempted. (pp. 5-7)

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## **Comments of Department of Social Officials**

Department of Social Services officials stated that, in response to our first recommendation, Nassau County had taken steps to assure that appropriate staff sign the service authorization forms. The Department believed that our second recommendation to require clients to sign for all goods and services would be too burdensome administratively to implement.

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<b>Appendix A</b>	Major Contributors to This Report
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<b>Appendix B</b>	Comments of Department of Social Services Officials
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The comments of Agency Officials are not available in an electronic format. Please contact our Office if you would like us to mail you a copy of the report that contains their comments.

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# Introduction

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## Background

The New York State Department of Social Services (Department) oversees the implementation and operation of various social services programs throughout the State. Actual operation of the programs is carried out by the State's 58 local social services districts (Districts) - the 57 counties and New York City. The cost of operating these programs is borne by the local, State, and Federal governments.

Pursuant to Article 5, Title 2 of the Social Services Law, the Districts submit periodic claims to the Department to obtain reimbursement for the costs of programs operated within their boundaries. For the period April 1, 1993, through March 31, 1994, the 58 local districts claimed a total of \$6.9 billion in State aid reimbursements for public assistance and other program related expenses. During this period, the Suffolk County Department of Social Services (Suffolk) and Nassau County Department of Social Services (Nassau) spent \$253.6 million and \$146.7 million, respectively, on public assistance; and claimed \$67.1 million and \$43.7 million, respectively, as State aid reimbursements.

The Department has established procedures to control the State aid claiming process: separation of the approval and payment processes, integration of automated controls (edits) into the computer system, and a process for multi-level review. Before any transactions can be processed, District caseworkers must authorize each client to receive particular benefits. This authorization occurs after the caseworkers interview the clients to determine their needs. The caseworkers must also approve client requests for specific services, such as summer camp for a child or an emergency delivery of heating fuel to a client. The caseworker's decisions are required to be reviewed and approved by a supervisor, and the amounts and services to be received are entered onto the Welfare Management System (WMS).

Payments for goods and services are processed through the Benefit Issuance Control System (BICS), a subsystem of the WMS. Before payment, the transaction must be entered onto BICS, which cross-checks with the WMS to verify that the client is entitled to the service and that the payment had been approved previously by the appropriate program department. BICS also checks to ensure that the transaction has not already been paid.

Once the BICS edits have been performed, a list of payments is produced and checks may be generated. Before any payments are made, however, the Controllers' Offices of both Nassau and Suffolk counties audit the lists, reviewing the supporting documentation to verify the appropriateness of the payments. Finally, the Department's Office of Fiscal Management reviews each claim before it is approved for payment.

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

We audited selected financial management practices of the Department of Social Services for the period April 1, 1993 through April 30, 1995. The objectives of the audit were to determine whether the Department had implemented adequate internal controls that could assure the effective monitoring of claims by local social services districts for reimbursement of certain expenditure items. We accomplished these objectives through a review of State and District accounting records, interviews with Department and District officials, and tests at two Districts (Nassau and Suffolk) to determine whether they followed the control procedures established by the Department. We tested claims for payments made to vendors that provided certain services, such as, day care, utilities, transportation and housing for Suffolk and Nassau clients during the State fiscal year ended March 31, 1994. These payments represented about \$63.8 million and \$35.4 million, respectively, during that period.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations which are included within the audit scope. Further, these standards require that we understand the internal control structure and compliance with those laws, rules and regulations that are relevant to the operations which are included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach to select activities for audit. We, therefore, focus our audit efforts on those activities we have identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, we use finite audit resources to identify where and how improvements can be made. We devote little audit effort reviewing operations that may be relatively efficient or effective. As a result, we prepare our audit reports on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

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## **Response of Department Officials to Audit**

Draft copies of this report were provided to Department and District officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

In addition to the issues discussed in this report, we have provided these officials with detailed comments concerning other related matters. Although

these matters are of lesser significance, our recommendations relating to them should be implemented to improve controls.

Within 90 days after the final release of this report, as required by Section 170 of the Executive Law, the Commissioner of the Department of Social Services shall report to the Governor, the State Comptroller and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein and where recommendations were not implemented, the reasons therefor.

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# Internal Control System

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We found that the Department has implemented an internal control system which, if followed by the Districts, provides adequate control of reimbursement claims. At the two Districts we reviewed, we noted sufficient separation among the approval, custodial and recordkeeping functions at each of the sites we visited. Computer system edits ensure that only authorized transactions are paid and that duplicate payments are not made; and monitoring is provided through a multi-tier system of review agencies. However, we found that Nassau was not following some of these controls. We also found that Department procedures relating to receipt of certain goods and services could be improved.

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## Utilization of Authorization Forms

The Department has developed standard authorization forms and procedures to support payments on behalf of clients. We found that Nassau did not properly use the authorization forms for certain services.

Social Services Law Article 3, Title 5, Paragraph 80 and Title 18, Part 406, Section 406.1 of the New York Codes, Rules and Regulations require that:

"The social services district shall maintain all records necessary for proper and efficient operation of the social services program. This includes records regarding application, determination of eligibility, authorization and provision of social services...and other records as are necessary for reporting and accounting."

The BICS payment processing manual also requires that:

"All Services Authorizations should be received and reviewed in Accounting. Accounting should ensure that the authorization is signed by the Services Case Worker and Supervisor before it is considered a valid authorization. Accounting should set up procedures to verify a valid, signed authorization is received by Accounting for every authorization that is entered into WMS."

At Nassau, we found that the service authorization forms for certain services were not used properly. Of a sample of 27 case files that we requested, we found that 10 of the 27 required authorization forms either were incomplete, had been signed and authorized by the same person, or were missing altogether.

This form is used to authorize a client to receive benefits, make changes in a client's benefits, re-certify a client to continue receiving benefits, or to remove a client's benefits. Since the information on these forms is entered onto the

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WMS, it represents the basic document for payments of public assistance benefits. Unless these forms are completed consistent with the process established by the Department, there is a risk that unauthorized transactions can occur. The following is a summary of the exceptions noted on the 10 forms we reviewed.

- ! Nassau was unable to provide eight of those forms that we requested. Without these authorization forms, we could not verify that the related benefits had been approved by an authorized person.
- ! On one of the forms we reviewed, the signatures of the data entry clerk and the supervisor had been signed by the same person. Each service authorization form contains spaces for the signatures of both the case worker and his/her supervisor, as well as the data entry clerk and his/her supervisor. The dual signatures provide accountability and control over information entered onto the system. Upon further investigation, we subsequently determined that both names had actually been signed by a third person. We were informed by a Nassau official that such third party authorization was common with one work group. This practice is not appropriate because it circumvents the controls established for this process and makes it possible for individuals to enter unauthorized transactions.
- ! One authorization form was processed without the supervisor's signature. The lack of signatures represents another breakdown in the controls that could lead to unauthorized entries or undetected mistakes.

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## **Compliance with Department Regulations**

One effective internal control over purchasing goods and services is a requirement that the recipient sign a copy of the vendor invoice, thereby verifying receipt of the goods and services. During our review of vouchers at Suffolk, we found that the clients were not signing for the receipt of certain goods such as fuel oil, or for certain services such as transportation costs for moving clients to new residences or the cost of enrolling clients' children in summer camps. We noted that Department procedures specifically exempt the Districts from requiring signatures for certain types of expenditures. The New York State Fiscal Reference Manual for Local Social Services Districts, Volume II chapter 2, for example, states that "the recipient should sign the form (DSS-3546) at delivery to indicate that the supplies or services were received. For heating fuel deliveries, the recipient's signature is not required. Also, if the BICS voucher form is used for services or supplies not normally required as needing a voucher, the recipient's signature is not necessary." Despite this lack of requirement for such signatures, we found that Nassau generally was obtaining such signatures.

We found that Suffolk followed the Department's guidelines. For example, during our audit period, Suffolk spent about \$3.7 million for purchases of home

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heating fuel. We found that clients receiving deliveries of this fuel did not sign the invoices at the point of delivery, thereby following Department procedures. As a result, there is no assurance that the correct amount of fuel was actually received.

Suffolk spent a total of \$332,000 to move clients to new residences during fiscal 1993-94. We found that clients being moved were not required to sign a receipt indicating that the move was completed. We reviewed one voucher for \$4,276 for a client's move to Las Vegas, Nevada. This client had not signed the invoice, indicating that the move had actually been completed or that the furniture was received. Similarly, Suffolk spent \$186,000 in fiscal 1993-94 for recipients' children to attend summer camp without signatures acknowledging the number of sessions the children attended, or whether they actually attended any sessions. Without signatures verifying that clients had received services for their children, there is no assurance that the services Suffolk paid for were actually received.

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## **Recommendations**

### **To the Nassau District**

1. Ensure that service authorization forms are available for all transactions, and are signed by appropriate persons.

(In its response to this recommendation, Department officials stated that Nassau County had taken steps necessary to implement this recommendation.)

### **To the Department**

2. Revise procedures to require clients to sign for all goods and services to acknowledge that goods and services paid for are actually received.

(Department officials responded that these procedures require a client's signature in most instances. However, they believe that obtaining a signature in all instances, such as for the delivery of fuel oil, would be too burdensome administratively.)

**Auditor's Comment** - We believe that Department officials should reconsider their position and review alternative ways for the districts to verify that clients actually receive the goods and services that the districts are paying for. In lieu of a client signature, the district, for example, could ask the client to call the district office upon receipt of the fuel oil.

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## Major Contributors to This Report

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David DeStefano  
Frank Houston  
William Challice  
Aaron Fruchter  
Richard Sturm  
Peter Schmidt  
Peter Blanchett  
Clyde Bynoe  
Marticia Madory