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December 8, 1998

Mr. Brian J. Wing
Commissioner
Office of Temporary and Disability Assistance
40 North Pearl Street
Albany, New York 12243

Re: Report 98-F-28

Dear Mr. Wing:

According to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law, we have reviewed the actions taken by officials of the Office of Temporary and Disability Assistance (Office), formerly the Department of Social Services, as of May 19, 1998 to implement the recommendations in our prior audit, Report 95-S-133, entitled "Food Stamp Program Administrative Costs." That report, which was issued March 13, 1997, examined the Office's oversight of social service district claims for reimbursement of Food Stamp Program administrative costs.

Background

As authorized by Section 4 of the Federal Food Stamp Act of 1977, the primary goal of the Food Stamp Program is to alleviate hunger and improve the nutritional level of low-income families by supplementing their funds to purchase food. The Food Stamp Program is the largest of the 13 domestic nutrition assistance programs administered by the U. S. Department of Agriculture. The Office oversees the activities of the 58 local social services districts which administer the Program. In 1990, more than 771,000 New York households received food stamp benefits totaling almost \$1.1 billion. In 1994, the Program served more than 875,000 households with benefits totaling more than \$1.7 billion.

The Food Stamp Program's benefits are 100 percent federally funded. Federal, State and local governments share the Program's administrative costs. For Federal fiscal year 1997, administrative costs totaled more than \$200 million; \$26 million for the Office's central office operations and \$174 million for local districts' administrative costs.

The Office's Cost Allocation Plan (Plan) contains uniform claiming procedures for districts to use in obtaining Food Stamp Program administrative cost reimbursement. The Plan allows districts

to claim costs which are directly or indirectly attributable to the Food Stamp Program. The Plan also requires districts to maintain audit trails for all claimed administrative costs, and make related documentation available for Federal and State review. The Office is responsible for overseeing the activities of districts to ensure they administer the Food Stamp Program in accordance with all Federal and Office procedures.

Summary Conclusions

In our prior audit, we found that districts used inappropriate claiming methodologies, improperly allocated administrative costs related to the Food Stamp Program, and lacked adequate documentation for costs related to the Food Stamp Program. We believe that these conditions were caused in part by the following: (1) the Plan's procedures were not specific and allowed for various interpretations; (2) district personnel did not always maintain supporting documentation; and (3) the Office did not review claims statewide to ensure that districts were claiming costs appropriately and maintaining proper documentation.

We also found that the Office's two-part review of claims submitted by the New York City district would only detect obvious mathematical errors before payments were made. Further, the Office had not developed performance indicators to enable them to identify the best practices of those districts which operate effectively at a lower cost per household. These types of management tools would have enabled program managers to isolate areas of strong performance and areas indicating opportunity for improvement.

Our prior audit report contained six recommendations.

Summary Status of Implementation

In our follow-up review, we found that some progress has been made by the Office in implementing our prior audit report recommendations. Of the six prior audit recommendations to the Office, one has been fully implemented, two have been partially implemented, and three have not been implemented.

Follow-up Observations

Recommendation 1

Develop more detailed cost allocation guidelines to be used by the districts when charging administrative costs to the various social services programs.

Status - Fully Implemented

Agency Action - The Cost Allocation Plan, which contains detailed cost allocation guidelines, is updated frequently by the Office (usually on an annual basis), and approved by the Federal

government. Updates are forwarded to all local social service districts. The most recent update to the Plan, dated May 10, 1998, included 15 pages of instruction changes/replacements. The update included a section on how to handle food coupons that have been returned by a recipient.

Recommendation 2

Reinstruct district personnel to follow the Cost Allocation Plan procedures, including maintaining supporting documentation for administrative expenses related to the Food Stamp Program.

Status - Partially Implemented

Agency Action - The Office sent a reminder to all local districts regarding the Plan's requirement for allocating employee time using time studies. Office personnel also made site visits to two districts to discuss concerns raised by our prior audit regarding the adherence to Plan procedures. Personnel from both districts indicated that they were now in compliance with the Plan's requirement for the completion of time studies to allocate Food Stamp administrative costs. Also, in December 1996, a "fact sheet" was sent to all the local social service districts reminding them of the Plan's requirement for utilizing time studies to allocate salary costs of an individual between food stamp-related functions and other social service functions.

Auditors' Comments - We noted that the reminders the Office sent to all local districts do not mention the need to maintain supporting documentation for administrative expenses related to the Food Stamp Program. This is necessary to ensure that an audit trail will exist for review by either management or Federal and State auditors

Recommendation 3

Periodically review district claims on a statewide basis to ensure that districts properly prepare their Food Stamp Program claims and that these claims are supported by complete documentation.

Status - Partially Implemented

Agency Action - All district claims are checked by the Automatic Claiming System for mathematical accuracy. In addition, the Office regularly reviews New York City, Nassau, Suffolk, and Westchester County claims for supporting documentation.

Auditors' Comments - Upstate claims comprise 20 to 25 percent, or in excess of \$35 million, of all statewide local district administrative expenditures. Therefore, we believe the necessity for a statewide periodic review of district claims, rather than a review of only downstate districts,

is warranted. Periodic reviews, by the Office of supporting documentation for Food Stamp Program administrative costs at the districts would provide additional assurance that districts are allocating costs appropriately and documenting costs as required by the Plan.

Recommendation 4

Determine why the administrative costs for the Food Stamp Program differ significantly among similar districts.

Status - Not Implemented

Agency Action - Office personnel indicated that no significant work has been done to address this recommendation.

Auditors' Comments - During our prior audit, we compared districts' administrative costs for the Food Stamp Program on a statewide basis. We used data that the districts had reported to the Office for the year ended December 31, 1994 to calculate each district's cost per household. We compared the districts' monthly administrative costs using a classification system, developed by Cornell University, which categorizes the State's 58 local social services districts into six homogeneous groups based on the relative degree of urban or rural influence and a set of 40 population and socioeconomic factors. This classification system helped identify those districts for which administration cost comparisons would be reasonable.

Our analysis found significant variations in the monthly administrative cost per household for districts within the same group that served approximately the same average number of households. We believe that such cost differences represent potential cost savings and warrant the need for the Office to perform some analysis to determine why these variations exist.

Recommendation 5

Develop performance standards for the number of cases that an examiner can effectively manage.

Status - Not Implemented

Agency Action - Office officials maintain, as they did in their original response to our audit, that Section 20-a of the Social Services Law prohibits the Office from establishing standards that would impact staffing levels assuming minimum Federal standards are being met.

Auditors' Comments - Our prior audit found that the Office and the districts have no standards for the number of cases that an examiner can effectively manage. We found that examiner caseloads differed between the districts in the same group. The development of performance

standards, by the Office, for the number of cases that an examiner can effectively manage may impact the monthly administrative costs to provide the Food Stamp Program to households.

Pursuant to an opinion of the State Comptroller's counsel, the Office and the districts must be able to demonstrate that they comply with Federal minimum staffing standards in order for this section of the Social Services Law to apply. However, there are no Federal statutes or regulations which impose minimum staffing standards for administration of child welfare services and care by local social services districts. As such, we believe the Office can establish caseload standards for each district.

Recommendation 6

Establish benchmark data as a basis for evaluating the reasonableness of the Food Stamp Program's administrative costs.

Status - Not Implemented

Agency Action - The Office issues a quarterly cost report that commingles Medicaid, Aid to Families with Dependent Children, and Food Stamp Program costs. It is management's expectation that local districts will use this quarterly report to evaluate aggregate administration costs.

Auditors' Comments - We found that administrative costs for the Food Stamp Program varied widely among districts. Differences in the types of households served seemed to impact the average monthly cost to provide households with food stamps. In addition, there are other factors that affect costs, such as efficiency and economy gains that could be related to certain districts' claiming practices and organization structure, or the extent to which districts have centralized eligibility determination functions.

Once these factors are known, the Office needs to analyze the reasons for the wide ranges in the districts' administrative costs per household served. Once completed, the analysis could also produce performance indicators and benchmark data for the Office to use in monitoring the efficiency of district operations and the reasonableness of the costs associated with administering the Food Stamp Program. The quarterly cost report currently used does not provide the necessary benchmark data, nor does it provide insight into the various factors affecting districts' widely varying food stamp administration costs.

Major contributors to this report were Richard Sturm, Brian Lotz, Michael Filippone, and Andrew Fischler.

We would appreciate your response to this report within 30 days, indicating any action planned or taken to address any unresolved matters discussed in this report. We also thank Office management and staff for the courtesies and cooperation extended to our auditors during this review.

Yours truly,

William P. Challice
Audit Director

cc: Robert L. King, DOB