
**REPORT TO THE ERIE COUNTY LEGISLATURE
92 FRANKLIN STREET
BUFFALO, NEW YORK 14202**

JUNE 2008

**AUDIT OF THE DEPARTMENT OF SOCIAL SERVICES
INTERNAL CONTROLS OVER CASH RECEIPTS, CASH
DISBURSEMENTS AND NEAR-CASH EQUIVALENTS**



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June 16, 2008

Erie County Legislature
92 Franklin Street, 4th Floor
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Dear Honorable Members:

The Erie County Comptroller's Office has completed an audit of the Erie County Department of Social Services ("DSS") for the period January 1, 2007 to January 31, 2008. The scope of our audit was limited to internal controls over cash receipts, cash disbursements and near cash equivalents.

We performed our audit in accordance with Generally Accepted Government Auditing Standards, and included such tests of records, inquiries, and analyses as considered necessary under the circumstances.

Our objective was to verify that the controls over cash receipts, cash disbursements and near cash equivalents are adequate. Specifically excluded from our objective was a determination of qualifications for benefits.

DSS management is responsible for establishing and maintaining a system of internal accounting control. Our evaluation of DSS internal controls disclosed deficiencies that would not allow management or employees in the normal course of performing their assigned functions to prevent or detect misstatements on a timely basis.

Because of inherent limitations in any internal control structure, errors and irregularities may nevertheless occur and not be detected. However, we noted certain matters in the internal control structure and its operations which have been reported in this document.

BACKGROUND:

In February 2006, investigators from the Erie County Sheriff's Office arrested a number of individuals who had allegedly purchased Niagara Frontier Transportation Authority ("NFTA") bus passes stolen from DSS. Initially, estimates of the value of the passes totaled \$30,000. However, in close cooperation with the Erie County District Attorney's Office, the Erie County Comptroller's Office began a review of the bus passes and it was determined that approximately \$337,000 worth of passes had been stolen.

In late May 2006, following a four month investigation by the offices of the District Attorney, Sheriff, and Comptroller, the Sheriff's Office determined that the bus passes had been stolen from Erie County ("County") by a DSS employee, working in cooperation with an outside accomplice. That DSS employee and her accomplice were indicted by an Erie County Grand Jury and arrested for the thefts. The DSS employee was terminated by the County in February 2006. Ultimately, both individuals were prosecuted and pled guilty to various charges.

During the investigation, the Comptroller's Office found problems in the way that bus passes were handled within DSS. The Comptroller's Office made recommendations to DSS to improve the distribution, control and reporting of bus passes.

SUMMARY FINDINGS:

Our tests of internal controls at DSS revealed the following significant findings:

Bus Passes and Bus Tokens:

- *Previous spreadsheet changes not implemented* - Bus pass theft was identified during a criminal investigation begun in February 2006. The Comptroller's Office developed a spreadsheet in 2006 to address problems with the way bus passes were accounted for. DSS began to use that spreadsheet but later returned to the old system as a result of staffing problems.
- *Contract non-compliance by contract agencies* - Inspection of records at a sample of contract agencies which distribute bus passes for DSS revealed that bus passes are issued to clients without requiring the client to turn in their bus pass for the previous month. This is a violation of the contract between an agency and the County. The requirement to turn in the previous month's pass helps to prevent the sale of a bus pass by a client.
- *Inaccurate client distribution lists* - DSS maintains monthly distribution lists of clients who are eligible for bus passes. Data collected from the distribution list for March 2008, revealed that ninety (90) individuals failed to collect bus passes and thirty-four passes were returned to DSS by the U.S. Postal Service due to erroneous addresses.
- *Reconciliations* of physical inventory to inventory per books were not performed regularly. The lack of daily reconciliations will not prevent or detect errors in the

inventory in a timely manner, nor detect misstatements due to theft or misplacement of inventory.

- Lack of segregation of duties in the DSS' Cashier's office. Employees in the Cashier's office have custody of inventory and record keeping responsibilities over inventory, subjecting inventory balances to manipulation. Proper segregation of duties would provide that persons with access to physical inventory do not have access to inventory records.
- Poor inventory control at contract agencies - During our site visits to contract agencies, we found no evidence that agencies reconcile bus token balances.

Other Issues:

- Distribution contracts not in compliance with the Erie County Administrative Code ("Code") - Contract agency contracts are not approved as to form by the Erie County Department of Law as required by Section 19.07 of the Code.
- Internal controls over Electronic Benefit Transaction ("EBT") cards are effective - We observed that the policies and procedures concerning EBT cards safeguard the cards and prevent unauthorized credit from being applied to EBT cards.
- Controls for medical transportation services - DSS has procedures in use, designed to detect billing errors by transportation providers.

INTERIM AUDIT MEMORANDA:

During the Audit, we identified a number of serious issues which we brought to the attention of DSS management through two (2) Interim Audit Memorandums ("IAM").

DSS Internal Control Failures - Interim Audit Memorandum Number 1:

In IAM number 1, we reported to DSS management deficiencies in internal controls over bus pass inventory. We found the following:

- DSS prepared no monthly reconciliation of bus passes. The required records should have included reconciliations for individual drawers of DSS employees in their Cashiers Office, and an overall bus pass inventory reconciliation.
- We found that within the DSS Cashier's Office there is no segregation of duties. A single employee has both custody and record keeping responsibilities. A Cashier's Office employee prepares orders for agencies and records orders.
- Four of four documents inspected (the DSS Cashier's Office Internal Usage Receipt Form B-5253) did not have either the required signatures or dates certifying the receipt in section 2. This form is used when a DSS Cashier's Office employee returns bus passes from his/her individual drawer. The absence of signatures may result in inventory discrepancies.
- Eleven of eleven documents inspected (the DSS Cashier's Office Receipt Form B-5231) did not have required signatures and dates in section 2. In addition, we found that the form is not pre-numbered. This form is used when an agency

returns unused bus passes to DSS. The absence of signatures may result in disputes over missing/lost passes, or over the quantity and type of passes returned by an agency to DSS.

DSS accepted all findings stated in IAM number 1 during a meeting between DSS management and the Comptroller's audit staff. The Comptroller's audit staff suggested improvements to internal control procedures for use in the DSS Cashier's office, with DSS management approval. The goal of the internal control system changes was to help DSS eliminate the recurrence of the findings cited in IAM number 1.

Our corrections included: (1) the suggestions for an improved internal control system including the creation of spread sheets to capture data; (2) improved segregation of duties among DSS employees; and (3) the modification of existing practices. Each of these three items is discussed separately.

The Comptroller's Office recommended the implementation of new spreadsheets for DSS to use to prevent and detect misstatements in the bus pass inventory and to determine the proper monthly invoice amount for bus passes. Bus pass receipt and disbursement data is collected, which allows the timely reconciliation of bus pass inventory.

Segregation of duties was deficient in the Cashier's office. Individuals with access to bus passes also had record keeping responsibilities. To remedy this situation, the Cashier's office supervisor must now approve all disbursements of supplies of bus passes. A clerk who has no authorization or custody duties will perform the record keeping. The remaining clerks have custody of the passes and distribute passes.

Our review of existing work practices led us to recommend modifications to provide more security over the bus passes, ensure source documentation for transactions, and to improve the efficiency of the distribution process. Security over assets was improved by reducing the number of bus pass supplies from six to two. This also improved efficiency. These changes reduced the number of inventory locations by four, eliminated four disbursement logs and four receipt logs, reduced the number of required reconciliations by four, and simplified the monthly reconciliation process. The documentation requirements were modified to ensure that receipt and disbursement data is supported by source documents, not simply an entry recorded on a log sheet.

The new procedures and new spreadsheets recommended by the Comptroller's Office were tested using March 2008 bus pass documentation. The spreadsheets and processes were modified based on the results of this test and DSS user input. The testing continued for bus passes for April and May 2008.

Contract Compliance - Interim Audit Memorandum Number 2:

In IAM number 2, we reported to DSS management instances of agency non-compliance with contracts which define the purchase and distribution of bus passes and bus tokens.

Eleven (11) contracts were selected for compliance testing, resulting in the following findings:

- Contract agencies do not maintain consistent inventory records for bus tokens. This fails to allow for a timely or accurate reconciliation of token inventory within each agency. In addition, DSS does not maintain token balances for each agency. We found during manual counts that there are discrepancies between bus token inventories on hand and what was received and utilized by agencies. Further, this problem is compounded by commingling agency-purchased tokens with those provided by DSS.
- In five instances the monthly reconciliation of bus passes did not agree to the bus pass signature sheet (Form B-2573) and the bus pass returns in Section 2 of the Cashier's Office Receipt (Form B-5231).
- Four agencies did not require clients to surrender the prior month's bus passes prior to the issuance of a new bus pass, as required by Section 7b of the contract with DSS.
- Four agencies tested did not verify client's photo identification prior to the issuance of bus passes or tokens as required by Section 7c of the distribution contract with DSS.
- Segregation of duties over the handling of bus passes and tokens was weak at three agencies.

We found that DSS does not adequately monitor the contract compliance or distribution records of contract agencies.

ERIE COUNTY ADMINISTRATIVE CODE:

As a matter of policy the DSS Office of Counsel approves distribution contracts as to form. However, Section 19.07 of the Code requires contracts to be approved as to form by the Erie County Attorney, a separate department of County government. This is intended as an important safety mechanism over departments. During the Audit, we were informed by DSS officials that contracts under review were initiated nineteen (19) years ago and the current practice been in place since that time. However, DSS legal counsel was unable to provide us with any such documentation to support this claim, and accordingly, their actions were not in compliance with the Code.

INACCURATE BUS PASS DISTRIBUTION:

Our Audit found that DSS maintains monthly distribution lists of clients that are eligible for bus passes. We found that in the March 2008 distribution list, ninety (90) clients failed to pick up their bus pass, and thirty-four (34) clients' bus passes were undeliverable in March 2008 due to incorrect mailing addresses.

This failure on the part of clients to collect their passes and incorrect mailing addresses strongly suggests the need for a DSS review of the eligible client listing as there is a risk for waste, fraud or abuse in bus passes or tokens.

WE RECOMMEND that the DSS management implement a program that verifies the validity and accuracy of the client lists every month, and eliminates incorrect, invalid, and non-existent clients from the monthly distribution lists.

VAULT CARDS:

A vault card is an Electronic Benefit Transaction (“EBT”) card issued by DSS to eligible clients pending the issuance and receipt of a formal EBT card prepared by New York State. Vault cards are issued to individuals that are not yet clients in the State system but are in need of immediate or emergency public assistance. Vault cards are temporary and are valid for 90 days from the date of issue by DSS.

DSS employees assess a client’s need and, pursuant to State guidelines, authorize a monthly amount on the vault card for the client’s use. There is no limit on the value that can be placed on the card. The County issues approximately 3,000 vault cards each month.

Vault cards are individually numbered and the numbers are all recorded when used. Vault cards by themselves have no value. They have to be entered in the system at the request of a DSS case worker. Once prepared, the client must sign for the benefit card when it is picked up and the signature is compared to the client signature that was originally signed in the presence of the case worker when the benefit request was prepared.

We found that controls over EBT cards are adequate to ensure that loss or misappropriation is minimized.

RECOMMENDATIONS:

While DSS has effective controls and measures in place concerning EBT vault cards and Medicaid transportation, this audit finds that DSS did not maintain effective internal controls over the dissemination of bus passes and bus tokens. As a result, there are opportunities for fraud against the County.

Overall, we found that DSS does not adequately regulate the contract agencies and does not ensure that the agencies comply with the terms of their contracts. We similarly found that contract agencies routinely did not completely comply with their contracts with DSS and failed to maintain basic internal controls. Under the existing system, the County or contract agencies cannot ensure that bus passes and bus tokens are properly disseminated and utilized by eligible clients.

In fact, as previously noted, there was a significant theft of bus passes by a DSS employee in 2006. During the various County departments’ investigation of that incident, DSS agreed to implement controls suggested by the Office of Comptroller. After an initial period of compliance, DSS later stopped using one portion of the

suggested controls, a key spreadsheet that, if properly utilized, will help prevent fraud and abuse.

DSS does not adequately monitor or enforce contract provisions with contract agencies that disseminate bus passes and bus tokens to eligible clients. Contract agencies were not in compliance with their contracts and maintained few controls to prevent fraud or abuse.

This audit found no instances of fraud or abuse in the items we reviewed. The recommendations implemented by DSS management as a result of this audit should reduce the risk to the County of fraud and abuse.

WE RECOMMEND that DSS management take the following actions:

Bus Passes and Bus Tokens:

- Support continued implementation and formal adoption of internal control procedures suggested by the Comptroller's Office.
- Continue training DSS personnel on the use of new forms, spreadsheets, and procedures developed for the bus pass and bus token programs.
- Direct DSS program support to modify monthly client distribution lists based on the needs of the DSS Cashier's Office staff.
- Direct DSS program support and DSS technical support units to eliminate incorrect, invalid, and non-existent clients from monthly distribution lists.
- Continue daily reconciliations for bus tokens and bus passes.

Contract Compliance:

- Improve oversight for distribution agencies to increase compliance with all provisions of the contracts for bus pass and token distribution.
- Require contract agencies to reconcile bus tokens every month. Those agencies that are unwilling or unable to reconcile token inventory may have their privileges revoked or the distribution contract terminated.

Administrative Code:

- DSS Office of Counsel should determine a solution in conjunction with the County Attorney for approval, as required by the Code.

AUDITOR COMMENTS:

Bus Tokens:

DSS disseminates monthly bus passes to clients and agencies up until the 15th day of each month. These passes, which can be used for unlimited NFTA transportation, are provided to eligible clients to facilitate their transportation for health and mental health appointments or to fulfill requirements regarding applying for employment. After the 15th day of each month, however, it is less expensive to distribute NFTA bus tokens to clients. Tokens cost the County \$1.35 each (the reduced rate that any passenger would pay if obtaining the tokens in bundles of 10 tokens at a time, as opposed to the normal rate of \$1.50) and provide the client a one way bus trip within one zone.

Internal controls were established for bus tokens similar to those controls implemented for bus passes, as discussed in the above section concerning IAM number 1. The Comptroller's Office audit staff established a beginning inventory for bus tokens, held in the Cashier's office, for April 2008.

Review of Bus Passes:

Erie County provides bus passes to eligible DSS clients. For Medicaid clients, Erie County is obligated to do so by federal regulations, specifically 42 CFR section 431.53 Assurance of Transportation, which mandates states and local governments provide transportation for eligible Medicaid recipients. That regulation reads in part: ". . . the Medicaid agency will ensure necessary transportation for recipients to and from providers." In 2007, the County expended \$2.2 million to purchase bus passes from the Niagara Frontier Transportation Authority ("NFTA")¹. Passes are provided at no charge to the eligible clients in order to allow these clients to attend medical appointments, including drug rehabilitation appointments, to get to and from work, and to search for employment.

Four types of monthly passes are available from the NFTA: Full fare all-zone, full fare one-zone, restricted fare all-zone, and restricted fare one-zone, with unit costs of \$66, \$55, \$33, and \$27.50, respectively. All-zone passes allow travel on NFTA busses throughout Erie County. One-zone passes allow travel on NFTA buses within the Buffalo city limits. Restricted fare passes are available to clients with medical needs. Restricted fare bus pass users must obtain NFTA-issued photo identification which must be displayed each time the pass is used. The NFTA does not require users of full fare bus passes to obtain photo identification, making the full-fare passes subject to misuse due to sale or other transfer of the pass by an approved recipient to an unauthorized individual.

¹ The Comptroller's Office notes that pursuant to an eighteen year old agreement between the County and the NFTA, the County annually subsidizes the NFTA with a payment. For 2007, this payment was roughly equivalent to 1/8 of the 1% sales and compensating use tax, or \$16.4 million. In 2008, that subsidy is budgeted at \$16.9 million.

To assist in the distribution of the passes, DSS maintains forty-four (44) separate contracts, with agencies such as Catholic Charities and Erie County Medical Center. These organizations request passes for DSS clients and distribute these passes to eligible clients on behalf of the County. Clients may collect their bus pass in person, either at certain County locations or at an agency, or have the pass mailed to their residence. DSS and the contract agencies distribute approximately three thousand five hundred (3,500) passes per month.

Medicaid Transportation Services:

Federal Medicaid rules mandate that Erie County maintain a transportation program for Medicaid recipients who are unable to use public transport (i.e. NFTA buses, light rail or para-transit). DSS' Medicaid Utilization Review Unit arranges for the provision of transportation services to DSS clients who are also certified Medicaid recipients.

Medical reasons, as well as the proximity to public transportation services, are the two major reasons why a Medicaid recipient would qualify for this service. In order to provide transportation services to a patient, the transportation must be certified as medically necessary and cost effective. A client must complete a medical questionnaire and that client's physician must also complete a questionnaire. In addition, the prospective client must also complete a Medicaid Clients Transportation Questionnaire, which is then reviewed by a DSS case manager. Once the client has completed all requirements, his/her eligibility is entered into the DSS database.

During the audit, we observed DSS examiner verifications and we reviewed a sample of recent transactions. Our testing confirmed that DSS examiners detected errors which were then corrected. These errors included overstated mileage and attempts to bill for clients whose eligibility had expired. DSS' computer database and use of computer mapping software enabled immediate detection of these errors.

RESULTS OF EXIT CONFERENCE:

An exit conference was held on Friday, June 13, 2008 with the DSS Commissioner and members of his staff. The contents of this report were discussed.

In accordance with the County's Audit Response System and Procedures, we request that the DSS Commissioner prepare a written response to our office and the County Executive concerning the findings and recommendations. A draft of this written response should be submitted to the Division of Budget and Management for review and approval prior to its submission to the County Executive. The final written response should be submitted to our office and the County Executive by July 16, 2008.

We further request that the DSS Commissioner forward copies of the response to the Erie County Legislature and the Erie County Fiscal Stability Authority by July 16, 2008.

ERIE COUNTY COMPTROLLER'S OFFICE

cc Michael Weiner, Commissioner, DSS
Hon. Christopher Collins, County Executive
Erie County Fiscal Stability Authority
Cheryl Green, County Attorney
Gregory Gach, Director of Budget and Management