

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**NEW YORK IMPLEMENTED EFFECTIVE
INTERNAL CONTROLS OVER
HURRICANE SANDY SOCIAL SERVICES
BLOCK GRANT FUNDS AND
APPROPRIATELY BUDGETED AND
CLAIMED ALLOWABLE COSTS**



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The designation of financial or management practices as questionable, a recommendation for the disallowance of costs incurred or claimed, and any other conclusions and recommendations in this report represent the findings and opinions of OAS. Authorized officials of the HHS operating divisions will make final determination on these matters.

New York implemented effective internal controls over Hurricane Sandy Social Services Block Grant funds and appropriately budgeted and claimed allowable costs as of March 31, 2014.

INTRODUCTION

WHY WE DID THIS REVIEW

Hurricane Sandy made landfall on October 29, 2012, devastating portions of the mid-Atlantic and northeastern United States and leaving victims of the storm and their communities in need of disaster relief aid. On January 29, 2013, the President signed into law the Disaster Relief Appropriations Act of 2013, P.L. No. 113-2 (Disaster Relief Act), which, in part, provided the Department of Health and Human Services (the Department) approximately \$800 million in funding for disaster response and recovery and other expenses directly related to Hurricane Sandy.¹ After sequestration, the Department received \$759.5 million in Disaster Relief Act funding, \$577.2 million of which was allocated to the Administration for Children and Families (ACF). ACF awarded \$235.4 million of these funds to the New York State Office of Children and Family Services (State agency) for Social Services Block Grant (SSBG) activities, including social, health, and mental health services for individuals and for the repair, renovation, and rebuilding of health care, mental health, and childcare facilities. (In this report, we refer to these funds as “Sandy SSBG funds.”)

The Disaster Relief Act mandated the Department’s Office of Inspector General (OIG) to perform oversight, accountability, and evaluation of programs, projects, or activities supported with Disaster Relief Act funds. This review is part of OIG’s Disaster Relief Act oversight activities. Appendix A contains a list of OIG reports related to the Disaster Relief Act.

OBJECTIVES

Our objectives were to determine whether the State agency (1) implemented effective internal controls over Sandy SSBG funds, (2) budgeted appropriate costs, and (3) claimed allowable costs in accordance with Federal requirements.

BACKGROUND

Administration for Children and Families

Within the Department, ACF is the agency responsible for promoting the economic and social well-being of families, children, individuals, and communities. ACF’s mission is to foster health

¹ The Budget Control Act of 2011 (P.L. No. 112-25) reduced the Hurricane Sandy disaster relief funds the Department received from approximately \$800 million to \$759.5 million. The law imposed automatic spending cuts, known as “sequestration,” designed to reduce the Federal deficit. The Office of Management and Budget determined that disaster relief funds were subject to sequestration, and as a result, the funds were reduced by approximately \$40.5 million.

and well-being by providing Federal leadership, partnership, and resources for the compassionate and effective delivery of human services. ACF received \$577.2 million in Disaster Relief Act funds to assist individuals and communities in storm-affected areas.

Social Services Block Grant

ACF provides SSBG funds to States to support a variety of initiatives for children and adults, including daycare, protective services, adoption, health-related services, transportation, foster care, substance abuse, housing, home-delivered meals, and employment services. Each State is responsible for determining what services will be provided, determining eligibility, and distributing funds among services.

The Disaster Relief Act provided States with supplemental SSBG funds for disaster response and recovery and other expenses directly related to Hurricane Sandy. States were allowed to use funds for costs incurred prior to the law's enactment provided these costs aligned with purposes specified in the bill and were not reimbursable by the Federal Emergency Management Agency or covered by insurance. ACF required States to expend these funds by September 30, 2015, and return any unexpended funds to the Federal Government. On June 12, 2015, ACF issued new guidance that revised the deadline to September 30, 2017.

New York State Office of Children and Family Services

In New York State, the State agency is responsible for administering the SSBG program. The State agency planned to collaborate with seven other New York agencies (known as "lead agencies") to award Sandy SSBG funds to subrecipients throughout the State. In addition, the State agency planned to use Sandy SSBG funds for specific disaster recovery projects. For the period October 1, 2012, through September 30, 2015, ACF awarded the State agency Sandy SSBG funds totaling \$235,434,600. Of this amount, the State agency budgeted \$214,017,804 for subrecipient activities, \$11,498,452 for specific projects, and \$8,834,600 for administrative costs. The remaining \$1,083,744 was not allocated. As of March 31, 2014, the State agency claimed \$1,996,806 for specific disaster recovery projects and administrative costs.²

The State agency is responsible for drawing down Sandy SSBG funds from the Department's payment management system. The State agency and the lead agencies are responsible for verifying that (1) subrecipients' grant applications are complete, (2) proposed costs are appropriate, (3) awards greater than \$50,000 are approved by the State's attorney general and comptroller's offices,³ and (4) construction awards greater than \$200,000 are approved by the State's Dormitory Authority.⁴

² The budgets in place as of March 31, 2014, were initial estimates based on the subrecipients' funding requests. Therefore, these budgets may have been modified after our audit period.

³ Award amounts less than or equal to \$50,000 are processed as purchase orders that do not require approval from the State's attorney general and comptroller's offices.

⁴ Once an award is approved, a contract is sent to the subrecipient. Contracts contain specific provisions requiring that quarterly reports detailing progress on the use of the funds be submitted to the State agency.

The State agency and the lead agencies are also responsible for verifying that program and financial performance is progressing by reviewing subrecipients' claims for completeness, accuracy, and allowability. The State agency aggregates information from the subrecipients and submits it quarterly to ACF. The State agency also submits a quarterly financial status report to ACF summarizing the aggregate Federal share of expenditures.

Federal Requirements

Title 45, part 96, of the Code of Federal Regulations establishes uniform administrative requirements governing block grants. As a government entity in receipt of Federal funds, the State agency must comply with Federal cost principles in 2 CFR part 225, *Cost Principles for State, Local, and Indian Tribal Governments*.⁵ These cost principles require that grant expenditures submitted for Federal reimbursement be reasonable, allocable, and otherwise allowable.

HOW WE CONDUCTED THIS REVIEW

We reviewed the State agency's internal controls over the awarding, monitoring, and reporting of Sandy SSBG funds. Additionally, we reviewed a sample of 42 subrecipients⁶ to determine the appropriateness of \$104,485,509 in Sandy SSBG funds that the State agency had budgeted but not expended as of March 31, 2014. Finally, we reviewed the allowability of Sandy SSBG funds totaling \$1,996,806 that the State agency claimed for reimbursement as of March 31, 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Appendix B contains the details of our audit scope and methodology.

⁵ OMB Circular No. A-87, *Cost Principles for State, Local, and Indian Tribal Governments* was relocated to 2 CFR part 225 and made applicable by 45 CFR § 74.27(a). Although not applicable to this audit, HHS promulgated new grant regulations at 45 CFR Part 75. The new regulation only applies to awards made on or after December 26, 2014.

⁶ We limited our review to 42 of the 102 sampled subrecipients that we had randomly selected because we decided that we could reasonably determine whether the State agency implemented effective internal controls and budgeted appropriate costs using a smaller sample size.

RESULTS OF REVIEW

New York implemented effective internal controls over the awarding, monitoring, and reporting of Hurricane Sandy Social Services Block Grant funds and appropriately budgeted and claimed allowable costs as of March 31, 2014. Accordingly, this report does not contain recommendations.

APPENDIX A: RELATED OFFICE OF INSPECTOR GENERAL REPORTS

Report Title	Report Number	Date Issued
<i>Bayview Nursing and Rehabilitation Center Claimed Allowable Hurricane Sandy Disaster Relief Act Funds</i>	<u>A-02-15-02010</u>	4/4/2016
<i>Link2Health Solutions, Inc., Budgeted Costs That Were Not Appropriate and Claimed Some Unallowable Hurricane Sandy Disaster Relief Act Funds</i>	<u>A-02-14-02013</u>	3/23/2016
<i>Health Research, Inc., Budgeted Costs That Were Appropriate and Claimed Allowable Hurricane Sandy Disaster Relief Act Funds Under Grant Number 1U01TP000567</i>	<u>A-02-15-02006</u>	2/2/2016
<i>New York University School of Medicine Budgeted Costs That Were Appropriate and Claimed Allowable Hurricane Sandy Disaster Relief Act Funds</i>	<u>A-02-14-02011</u>	12/7/2015
<i>The Department of Health and Human Services Designed Its Internal Controls Over Hurricane Sandy Disaster Relief Funds To Include Elements Specified by the Office of Management and Budget</i>	<u>A-02-13-02010</u>	7/24/2014

APPENDIX B: AUDIT SCOPE AND METHODOLOGY

SCOPE

We reviewed the State agency's internal controls over the awarding, monitoring and reporting of Sandy SSBG funds. Additionally, we reviewed a sample of 42 subrecipients to determine the appropriateness of \$104,485,509 in Sandy SSBG funds that the State agency had budgeted but not expended as of March 31, 2014. Finally, we reviewed the allowability of Sandy SSBG funds totaling \$1,996,806 that the State agency claimed for reimbursement as of March 31, 2014.

We performed our fieldwork at the State agency's offices in Rensselaer, New York.

METHODOLOGY

To accomplish our objectives, we:

- reviewed applicable Federal laws, regulations, and guidance;
- held discussions with State agency officials and reviewed flow charts of their internal control processes for the awarding, monitoring, and reporting of Sandy SSBG funds;
- reviewed the State agency's:
 - approved budget (pre-expenditure report) for Sandy SSBG funds submitted to ACF on June 30, 2013;
 - Request for Proposals dated July 5, 2013, allowing grantees to apply for Sandy SSBG funding; and
 - budgeted costs, as of March 31, 2014;
- verified the completeness and accuracy of the State agency's March 31, 2014, budget and reconciled these amounts to the \$235,434,600 in Sandy SSBG funds awarded to the State agency by ACF;
- obtained a list of subrecipients from the State agency and identified a sampling frame of 479 subrecipients, for which the State agency budgeted Sandy SSBG funds totaling \$214,017,804;
- selected a stratified random sample of 102 subrecipients from the sampling frame of 479 subrecipients;
- reviewed Sandy SSBG costs for 42 of the 102 sample subrecipients for which the State agency budgeted \$100,015,901, and, for each subrecipient:

- reviewed the application package,⁷ including the budget, for appropriate costs; and
- verified that the State agency effectively implemented its internal controls;
- verified the appropriateness of \$4,469,608 that the State agency had budgeted but not expended for specific disaster recovery projects and the allowability of \$1,996,806 claimed for Federal reimbursement for specific disaster recovery projects and administrative costs; and
- discussed the results of our review with State agency officials.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

⁷ The application package is the subrecipients' response to the State agency's request for proposals.