



COUNTY OF ONONDAGA

Office of the
County Comptroller

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December 8, 2016

Onondaga County Legislature
Onondaga County Executive

Re: Financial Operations Interdepartmental Billing

Dear Honorable Legislators and Executive,

This Office reviewed the interdepartmental billing procedures for Financial Operations (the "Department"). The Department has already begun implementing many of recommendations of the Audit.

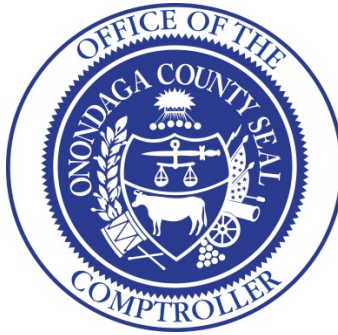
Multiple areas were open to improvement. The Comptroller's Office pointed out areas where new practices could be implemented to establish a system of checks and balances in accordance with Onondaga County Directives and general best practice standards.

Should you have any questions or concerns, please do not hesitate in contacting this office directly.

Sincerely,


Robert E. Antonacci II, CPA

cc: Steven Morgan, Chief Fiscal Officer
Phillip Britt, Deputy Director of Financial Operations



**Report on
Financial Operations interdepartmental billing Audit
By Onondaga County Comptroller Robert E. Antonacci, CPA, Esq.**

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SECTION I

BACKGROUND AND EXECUTIVE SUMMARY

Background

With the passing of Local Law No. 9-2013, the Onondaga County Charter and Administrative Code was amended, effective January 1, 2014, to reorganize certain Human Services departments to allow for improved coordination of certain human services provided to Onondaga County residents. With the passing of this law, Financial Operations, within the Department of Finance, was formed to provide comprehensive fiscal services to these departments, providing support in areas including procurement, accounts receivable, accounts payable, billing, financial planning and monitoring of the County's monetary resources. As part of their mission, the Division focuses on streamlining fiscal processes, maximizing external reimbursement, and providing the County Executive and the Division of Management and Budget with information to produce a more thorough spending plan. The Financial Operations department is under the direction of the Chief Fiscal Officer of Onondaga County with a Deputy Director of Financial Operations who serves at the pleasure of the Chief Fiscal Officer. The Deputy Director administers and oversees Financial Operations to support several departments within the County.

The following data regarding the transitioning of employees from Onondaga County departments to Financial Operations was obtained from the corresponding budget books for the year. In 2014 the Human Services department's budget transitioned 33 positions to Financial Operations. The Human Services positions included; 3 positions from Mental Health, 24 from Social Services, 3 from Probation, 2 from Aging and 1 from Youth. In 2015, 25 positions were budgeted to transition from the following departments; 2 from Sheriffs, 1 from Library, 2 from DSS Economic Security and 20 from Health. In 2016, 7 positions were budgeted to transition from the following departments; 2 from Library, 1 from Personnel, 1 from Metro Water Board, 1 from Community Development, 1 from Law and 1 from IT.

Additional County departments are expected to be phased in to Financial Operations over the next several years. At this point the timeline is not determined. With Financial Operations transitioning all County departments' fiscal functions it is important for their interdepartmental billing procedures and billing reimbursements to federal and state granting agencies be correct, complete, and have a consistent methodology.

Executive Summary of Findings and Recommendations

Over the course of the audit, we found the following:

1. The billing procedures and process were not formally documented.
2. The billing procedures and process for 2014 and 2015 were not consistent.
3. The billings for 2014 were not completed in a timely manner.
4. Time studies were not completed for all employees of Financial Operations.
5. Time studies were not completed in a timely manner or approved by a supervisor.

6. Grant work performed was not properly captured on the Letters of Distribution.
7. Administrative work by Financial Operations employees was not properly recorded on Letters of Distribution (LODs) and billed correctly to departments.
8. Financial Operations expenses for 2014 and 2015 were not completely billed to departments.

Our high level recommendations include:

9. Financial Operations should develop and implement a more comprehensive manual to address all departments which are using their services.
10. All employees in Financial Operations should complete time studies.
11. A system must be in place to ensure time studies are reviewed and approved to ensure billings of the Financial Operations department are proper and accurate for claiming federal and state reimbursement.
12. Actual charges to grants should be reflected on the Personnel Activity Reports (PARs).
13. Financial Operations should reconcile their interdepartmental billings to actual expenses.

SECTION II

SCOPE AND METHODOLOGY

Scope:

The purpose of this report is to provide information and recommendations to Financial Operations management on their interdepartmental billings and their related policies and procedures.

Our objectives were to:

- Determine if the billing methodology is in compliance with Office of Management and Budget (OMB) federal uniform guidance 2 CFR Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
- Determine the billing procedures and controls implemented were being performed.
- Determine if the billing process implemented by Financial Operations is complete in capturing all costs to be reimbursed by all County departments.
- Review and determine if the billing methodology is consistently applied.
- Determine if all expenses are being billed to the correct County departments.
- Determine if time tracking of employees in Financial Operations clearly captures all time worked for departments and time for grant work is captured correctly.
- Select a sample of employee timesheets and compare to the quarterly billings for accuracy.
- Provide Financial Operations management with recommendations related to interdepartmental billings.

Methodology:

In order to complete our objectives we:

- Reviewed the Financial Operations Interdepartmental billing procedures to get an understanding of the process.
- Reviewed 2014 and 2015 4th quarter interdepartmental payroll billings for accuracy and consistent methodology.
- Selected 20 employees from both quarters to ensure their time was recorded and billed correctly by reviewing time studies, letters of distribution and the billing worksheets.

- Interviewed selected employees to determine if their costs charged to the programs were appropriate as compared to their job responsibilities.
- Reviewed the 2014 and 2015 Financial Operations expense billing to ensure completeness and accuracy in billings.

SECTION III FINDINGS AND RECOMMENDATIONS

- A. The Financial Operations-Interdepartmental billing process is a one sheet 8 step narrative. It does not include detailed steps or time deadlines as to when each step is to be completed in order to bill departments timely. Also, while completing the audit it was noted some departments, such as Health, have specific nuances on how to address their billing and time reporting. This is not documented in order to ensure it is completed properly.

Recommendation:

1. *Financial Operations should develop and implement a more comprehensive manual to address all departments which are using their services. If departments have procedures specific to their functions, this needs to be documented as well. With some departments having to comply with Federal regulations for federal grant reimbursement, this manual would lay the foundation of the internal controls for Financial Operations interdepartmental billing. Per OMB Federal Uniform Guidance, 2 CFR, part 200.302 (a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditure adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. See appendix for the details of the guidance.*

Department Response: The Department recognizes the importance of having well documented procedures and has continued to focus on improving our documentation of procedures. We are also implementing a software solution designed to record and document procedures in detail for later viewing by employees.

- B. In 2014 time studies were completed by all employees. In 2015, this process changed with the inclusion of Health and Library personnel. If an employee is working 100% in Health or Library, then a time study is not required to be completed. However, it was noted a predetermined percentage of their total time is charged to Financial Operations general fund and then billed to Health and Library in the quarterly interdepartmental billing. The remaining portion of their time is charged to grants the employee is

performing work in. Therefore, this time cannot be supported and is not in compliance with OMB Guidelines.

Recommendation:

2. *All employees in Financial Operations should complete time studies. If an employee works 100% in one department then at the beginning of the year they should complete a signed statement stating this and have the supervisor sign off. This can be stored in a yearly/100% file folder. Additionally, what Financial Operations considers 100% in Health or 100% in Libraries or any other County department should be documented in the procedures manual. Financial Operations management should review the OMB Guidelines to ensure compliance with salary and wage allocation requirements.*

Department Response: Management has reviewed the OMB guidelines outlined in the recommendation. We will continue to monitor performance and compliance. Sign off policies have been implemented to comply with the above recommendation.

- C. We noted discrepancies when comparing Personnel Activity Reports (PARs) and the data recorded in the 4th quarter 2015 interdepartmental billings and Letters of Distribution (LOD) for corresponding pay periods. It was noted some of the PARs did not agree with the LODs and interdepartmental billing worksheets. Some of the discrepancies ranged from 2% to 53%. Three of the four employees tested who were working in grants, their administrative time recorded on the PARs did not agree to the administrative time charged on the LODs and the interdepartmental billing worksheets. Additionally, for one employee tested, some of their grant work did not even appear on the LOD. Therefore, it appears grant work is not being accurately and consistently recorded and billed. With employees who work 100% of their time in a department not having to complete a time report as we saw in finding B above but then having to complete a PAR for their grant work, there is a high likelihood of discrepancies and errors due to not tracking all of their time in one document. Per OMB Federal Uniform Guidance, 2 CFR, part 200.430 Compensation – personal service (i) (ii) (i) Standards for Documentation of Personnel Expenses (1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. See appendix for the details of the guidance. Financial Operations management stated that they do review their LODs and PARs quarterly and perform adjustments when necessary to adjust the LODs to the proper amounts when they do not agree with employee PARs. Financial Operations management stated they have not had to perform adjustments during the period of audit and therefore was not able to provide back up as proof that this procedure is performed.

Recommendation:

3. *A system must be in place to ensure time studies are reviewed and approved to ensure billings of the Financial Operations department are proper and accurate for claiming federal and state funds. These records must reasonably reflect the employee's total activity. Total activity would include what is considered the employees "100%" portion charged to Financial Operations and the remaining portion of time charged to grants. They should provide a percentage breakdown of all activities, both Federally-funded and non-Federally funded. Overall these records must be supported by a system of internal controls which provides reasonable assurance the time being charged is accurate, allowable and properly allocated. This system should be in compliance with OMB Federal Uniform Guidance, 2 CFR in order to ensure continued funding of grants. As stated above, Financial Operations management stated they do review the LODs and PARS quarterly and make adjustments when necessary. It would be beneficial to record this step has been performed. This could be done on the quarterly interdepartmental billing worksheet.*

Department Response: The Department has discussed the above recommendation with the Audit Division. Conversations included changing language to state 100% of an employee's time not charged to grants through LODs, to more accurately capture the intention (This would eliminate the majority of the perceived discrepancies). The Department also pointed out that the treatment of the above has been audited by State agencies without any compliance issued being identified by the State agencies. Actual time spent on a grant is recorded, so that when additional funds become available they County is able to claim for these funds based on individuals' Personal Activity Reports. Financial Operations is still working with Department to gather the various audits by State agencies to satisfy Audit's request as to the compliance and proper treatment of this time. Actual time recorded under a grant and not charged through an LOD (as the grant cannot hold the additional expense) is then fully charged back to the Department that holds that grant, thus making sure that time is accurately charged.

- D. Based on the results of interviewing 11 employees and comparing their respective PARs, we noted one employee working on grants is not properly reflecting all of their time actually worked on their respective grants. It appears the PARs are being completed to only reflect and support the amount of time the grant budget can support for reimbursement. The "excess" non-reimbursable grant time is recorded under a general "Administrative" time. They do not add any comments as to what the administrative time consisted of. The PAR's are not properly completed to reflect the grant work

actually being performed by employees. They are not recording any of the grant work for which they will not receive reimbursement.

Recommendation:

4. *Actual time spent should be reflected on the PARs even though the County will not receive federal or state reimbursement for time spent on some grants. Even if specific work is charged to admin they could document the time with an explanation as to what grants or programs they worked on. This system should be in compliance with OBM Federal Uniform Guidance, 2 CFR.*

Department Response: As discussed with the Audit Division, Financial Operation intends to implement new naming conventions. The PARs in this instance were named Administration where they should have been more accurately named Health Administration. Time worked on overall grant items that may not be delineated out to one grant was recorded under Administration and then fully charged back to the Health Department.

- E. While reviewing 2014 time studies, there were 3 out of 10 signed by the worker up to a month or more past the due date, thus delaying the opportunity to bill these services timely. There were 2 out of 10 with no approval by a supervisor in the 4th quarter of 2015. These time studies were sent directly to the Financial Operations biller via email with a cc: to the supervisor but there was no approval email from the supervisor. If these studies were not approved by the supervisor this could lead to incorrect interdepartmental billings. With over 60 plus time studies to be completed and approved each quarter, and more as departments transition in, there needs to be an organized, timely method for the completion and approval of time studies.

Recommendation:

5. *Financial Operations should establish a centralized computer file to store all time studies to adequately track and monitor employee's time studies and their approval thereof. Documented procedures and time deadlines for completion and approval should be adhered to in order to complete timely quarterly interdepartmental billings.*

Department Response: There is a centralized file with all the time studies submitted. An electronic approval process is being implemented. Timeliness of billing other County Departments for services provided by Financial Operations is being monitored with improvements expected.

- F. When reviewing the expenses for Financial Operations for 2014 and 2015 it was noted not all expenses were included for interdepartmental billing purposes. In 2014, approximately \$472,575 or 16% of expenses was not billed and in 2015 approximately \$13,306 or less than 1% was not billed. In 2014, the billing for all expenses and payroll was not completed until the 4th quarter. In 2015, the billing process was revamped and completed in a timely manner.

Recommendation:

6. *When performing the billing of expenses, the full year total bill should be reconciled to the PeopleSoft actual expenses for Financial Operations in the 1st quarter of the next year and an adjusted bill should be sent out reflecting any expenses which were not captured in the previous quarterly bills for the year. If there are any necessary variances, they should be documented to keep a record as to why these expenses are not part of the billing.*

Department Response: We will review the recommendation and implement where applicable. Financial Operations is continually monitoring procedures and will continue its focus on compliance.

SECTION IV

APPENDIX

§ 200.302 Financial management.

(a) Each state must expend and account for the Federal award in accordance with state laws and procedures for expending and accounting for the state's own funds. In addition, the state's and the other non-Federal entity's financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award. See also §200.450 Lobbying.

§ 200.430 Compensation – personal services.

(i) Standards for Documentation of Personnel Expenses

(1) Charges to Federal awards for salaries and wages must be based on records that accurately reflect the work performed. These records must:

(i) Be supported by a system of internal control which provides reasonable assurance that the charges are accurate, allowable, and properly allocated;

(ii) Be incorporated into the official records of the non-Federal entity;

(iii) Reasonably reflect the total activity for which the employee is compensated by the non-Federal entity, not exceeding 100% of compensated activities (for IHE, this per the IHE's definition of IBS);

(iv) Encompass both federally assisted and all other activities compensated by the non-Federal entity on an integrated basis, but may include the use of subsidiary records as defined in the non-Federal entity's written policy;

(v) Comply with the established accounting policies and practices of the non-Federal entity (See paragraph (h) (1) (ii) above for treatment of incidental work for IHEs.); and

(vi) [Reserved]

(vii) Support the distribution of the employee's salary or wages among specific activities or cost objectives if the employee works on more than one Federal award; a Federal award and non-Federal award; an indirect cost activity and a direct cost activity; two or more indirect activities which are allocated using different allocation bases; or an unallowable activity and a direct or indirect cost activity.

(viii) Budget estimates (i.e., estimates determined before the services are performed) alone do not qualify as support for charges to Federal awards, but may be used for interim accounting purposes, provided that:

(A) The system for establishing the estimates produces reasonable approximations of the activity actually performed;

(B) Significant changes in the corresponding work activity (as defined by the non-Federal entity's written policies) are identified and entered into the records in a timely manner. Short term (such as one or two months) fluctuation between workload categories need not be considered as long as the distribution of salaries and wages is reasonable over the longer term; and

(C) The non-Federal entity's system of internal controls includes processes to review after-the-fact interim charges made to a Federal awards based on budget estimates. All necessary adjustment must be made such that the final amount charged to the Federal award is accurate, allowable, and properly allocated.

(ix) Because practices vary as to the activity constituting a full workload (for IHEs, IBS), records may reflect categories of activities expressed as a percentage distribution of total activities.

(x) It is recognized that teaching, research, service, and administration are often inextricably intermingled in an academic setting. When recording salaries and wages charged to Federal awards for IHEs, a precise assessment of factors that contribute to costs is therefore not always feasible, nor is it expected.

(2) For records which meet the standards required in paragraph (i)(1) of this section, the non-Federal entity will not be required to provide additional support or documentation for the work performed, other than that referenced in paragraph (i)(3) of this section.

(3) In accordance with Department of Labor regulations implementing the Fair Labor Standards Act (FLSA) (29 CFR part 516), charges for the salaries and wages of nonexempt employees, in addition to the supporting documentation described in this section, must also be supported by records indicating the total number of hours worked each day.

(4) Salaries and wages of employees used in meeting cost sharing or matching requirements on Federal awards must be supported in the same manner as salaries and wages claimed for reimbursement from Federal awards.

(5) For states, local governments and Indian tribes, substitute processes or systems for allocating salaries and wages to Federal awards may be used in place of or in addition to the records described in paragraph (1) if approved by the cognizant agency for indirect cost. Such systems may include, but are not limited to, random moment sampling, "rolling" time studies, case counts, or other quantifiable measures of work performed.

(i) Substitute systems which use sampling methods (primarily for Temporary Assistance for Needy Families (TANF), the Supplemental Nutrition Assistance

Program (SNAP), Medicaid, and other public assistance programs) must meet acceptable statistical sampling standards including:

(A) The sampling universe must include all of the employees whose salaries and wages are to be allocated based on sample results except as provided in paragraph (i)(5)(iii) of this section;

(B) The entire time period involved must be covered by the sample; and

(C) The results must be statistically valid and applied to the period being sampled.

(ii) Allocating charges for the sampled employees' supervisors, clerical and support staffs, based on the results of the sampled employees, will be acceptable.

(iii) Less than full compliance with the statistical sampling standards noted in subsection (5) (i) may be accepted by the cognizant agency for indirect costs if it concludes that the amounts to be allocated to Federal awards will be minimal, or if it concludes that the system proposed by the non-Federal entity will result in lower costs to Federal awards than a system which complies with the standards.

(6) Cognizant agencies for indirect costs are encouraged to approve alternative proposals based on outcomes and milestones for program performance where these are clearly documented. Where approved by the Federal cognizant agency for indirect costs, these plans are acceptable as an alternative to the requirements of paragraph (i) (1) of this section.

(7) For Federal awards of similar purpose activity or instances of approved blended funding, a non-Federal entity may submit performance plans that incorporate funds from multiple Federal awards and account for their combined use based on performance-oriented metrics, provided that such plans are approved in advance by all involved Federal awarding agencies. In these instances, the non-Federal entity must submit a request for waiver of the requirements based on documentation that describes the method of charging costs, relates the charging of costs to the specific activity that is applicable to all fund sources, and is based on quantifiable measures of the activity in relation to time charged.

(8) For a non-Federal entity where the records do not meet the standards described in this section, the Federal government may require personnel activity reports, including prescribed certifications, or equivalent documentation that support the records as required in this section.

SECTION V

FINANCIAL OPERATIONS MANAGEMENT RESPONSE

The following observations and comments pertain to the section referenced herein:

- A. (Page 6 of this report) The administrator of this process will expand upon the current documentation to include the nuances which are currently understood by those who do the claiming but are not presently fully documented.
- B. (Page 6 of this report) Starting with Q3 2016, in accordance with preliminary audit discussions, all Financial Operations employees complete a Time Study, no matter the percentage breakdown of their time.
- C. (Page 7 of this report) The PAR/Grant discussion pertains entirely to the tracking done in the Health Department grants area. The key to successfully implementing the recommendations is found in Section D, Recommendation 4. Plans are being formulated to hold discussions with relevant personnel.
- D. (Page 8 of this report) See comment above regarding section C.
- E. (Page 8 of this report) Post-audit, all time studies returned via email come from the supervisor with their approval stated in the body of the email.
- F. (Pages 8-9 of this report) Regarding the year-end variance, the report is correct in stating it is nearly impossible to eliminate altogether, as there are always interdepartmental adjustments made after the IB has been completed. The merry-go-round has to stop somewhere! Financial Operations will try to get as close to zero as possible, and in future will provide an explanation for the final gap.

Less emphasis is being put on the comments regarding 2014, as the process was still in development. The comments for 2015 are useful for taking corrective action, and billing is on a timely track in 2016.

In reviewing the 2 CFR 200.430 regulations, the following actions will be discussed for implementation:

1. Relative to (i) *Standards for Documentation of Personnel Expenses*, paragraph (3): include a report from Kronos for each non-exempt employee to support the number of hours recorded during the period of each Time Study.
2. Relative to (i) *Standards for Documentation of Personnel Expenses*, paragraph (5) (ii) allocate not only the Administrative Assistant's salary based on the results of the sampled employees, but also the top supervisors in Financial Operations: Deputy Director, and the two Admin Officers.