



FEB 15 2001

Memorandum

Date *Michael Mangano*
Michael F. Mangano
From Acting Inspector General

Subject States' Use of Voluntary Contributions Under Title III of the Older Americans Act
(A-12-00-00002)

To Norm Thompson
Acting Principal Deputy Secretary for Aging

This memorandum transmits the final report entitled, "States' Use of Voluntary Contributions Under Title III of the Older Americans Act." This report provides a summary of our findings and recommendations resulting from our review of Administration on Aging's (AoA) statute and regulations pertaining to the States' use of voluntary contributions.

The AoA, on January 8, 2001 responded to our draft report and generally agreed with our findings and recommendations. The AoA also provided details on actions they are taking to correct the issues we identified. Based on the information provided by AoA, we revised the recommendation related to Unobligated Federal Funds. The AoA comments to our draft report are summarized in the body of this report and are included in their entirety in Appendix C.

We would appreciate your views and the status of any further actions taken on our recommendations within the next 60 days. To facilitate identification, please refer to Common Identification Number A-12-00-00002 in all correspondence relating to this report.

If you have any questions, please call me or have your staff contact Donald L. Dille, Assistant Inspector General for Administrations of Children, Family, and Aging Audits, at (202) 619-1175.

Attachments

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**STATES' USE OF VOLUNTARY
CONTRIBUTIONS UNDER TITLE III OF
THE OLDER AMERICANS ACT**



**FEBRUARY 2001
A-12-00-00002**



Memorandum

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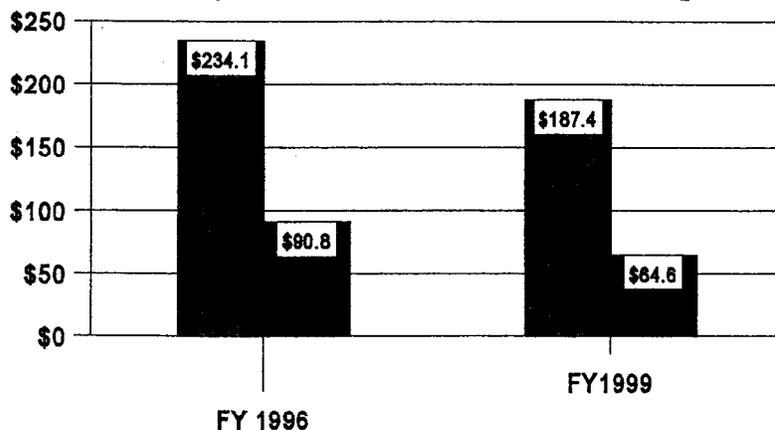
Date: *Michael Mangano*
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From: Acting Inspector General

Subject: States' Use of Voluntary Contributions Under Title III of the Older Americans Act (A-12-00-00002)

To: Norm Thompson
Acting Principal Deputy Secretary for Aging

Current Administration on Aging (AoA) regulations permit States to use voluntary contributions as added funds committed to a grant project or program or to meet cost-sharing or matching requirements of their grant agreements. However, the use of voluntary contributions to meet cost-sharing or matching requirements as permitted by these regulations is contrary to section 307(a)(13)(C)(ii) of the Older Americans Act (Act). This section of the Act requires that voluntary contributions be used to increase the services (such as congregate and home delivered meals, transportation, and in-home support) provided under the grant. According to financial status reports submitted to AoA, 28 States and the District of Columbia (DC) used \$90.8 million in voluntary contributions in Fiscal Year (FY) 1996 and \$64.6 million in FY 1999 to meet matching requirements of their grant agreements.

Voluntary Contributions Used for Matching



■ Voluntary Contributions Received by 50 States and DC
 ■ Contributions Used to Match by 28 States and DC

In addition, for FY 1996 and FY 1999 respectively, six States retained \$9.8 million and eight States retained \$11.4 million of voluntarily contributed funds which were not used for nutrition and supportive services. They were accumulated in reserve accounts. These funds should have been used before the States requested additional Federal cash payments to provide nutritional and supportive services to the elderly. The Department's regulation for cash management practices, 45 CFR 92.21(f)(2), states that "...grantees and subgrantees shall disburse program income, ...and interest earned on such funds before requesting additional cash payments." Further, we identified 16 States and Puerto Rico which did not report \$557,724 of unobligated FY 1996 Title III funds to AoA in a timely manner. As a result, the funds lapsed without being made available to other States.

RECOMMENDATIONS

We recommend that AoA:

1. Revise its regulations to make clear that:
 - ✓ voluntary contributions are not to be used for cost sharing or matching;
 - ✓ accumulated voluntary contributions are to be used prior to making Federal draw downs; and
 - ✓ voluntary contributions and related interest earned are program income and must be used to expand services.
2. Review the current process to identify States which have a history of unobligated or unliquidated fund balances and provide monitoring and technical assistance to such States to assure that funds are reallocated to other States in a timely manner.
3. Step up efforts for monitoring the financial status reports to ensure that all available funding is used to satisfy the needs of the elderly.

AOA RESPONSE AND OFFICE OF INSPECTOR GENERAL (OIG) COMMENTS

The AoA generally agreed with the findings and recommendations. The AoA provided details on actions it is taking to correct the issues identified in our report. The AoA comments to our draft report are summarized in the body of this report and are included in their entirety in Appendix C.

BACKGROUND

Grant programs authorized by the Act are administered by AoA. These programs provide meals and various supportive services to help vulnerable older persons remain in their own homes. These programs also offer older Americans opportunities to enhance their health and to be active contributors to their families, communities, and the Nation.

The AoA allocates Title III funds for nutritional and supportive services by formula grant to States. States distribute the funds to area agencies on aging, which in turn fund the local agencies and service providers. Nutritional services are an essential part of health promotion, disease prevention activities, and thereby contribute to the achievement of several departmental initiatives. Supportive services, such as transportation, in-home support and caregiver support ensure that older Americans remain independent. All Title III services are funded on a statewide basis with a matching requirement under a set formula to be provided from non-Federal sources such as State and local funds.

The AoA requires submission of financial status reports from State agencies semiannually to report on program expenditures as well as the amount of voluntary contributions used for the addition alternative or the cost sharing (matching) alternative. A final financial status report must be submitted to the Regional Administrator within 90 days after expiration of the 3-year period for obligating Federal funds.

OBJECTIVE, SCOPE, AND METHODOLOGY

The objective of our review was to determine if States reported using voluntary contributions for expanding the nutritional and related supportive services to the elderly or for meeting matching requirements. We performed a detailed review of one State agency to determine how contributions were used.

To achieve our objective, we reviewed applicable Federal laws and regulations pertaining to the use of voluntary contributions; and reviewed and compiled FYs 1996 and 1999 financial data from the financial status report for all the States, DC, and Puerto Rico. We selected FY 1996 financial status reports because they were the most recent final reports available after the 3-year obligation authority had expired. The FY 1999 financial reports were not final but were used to determine if the conditions found in FY 1996 continued to exist.

We judgementally selected the State agency in DC, and reviewed its applicable laws and policies, methodology and practices employed to account for and use voluntary contributions. We interviewed key State agency officials and examined the State agencies' accounting records used to prepare the financial status reports. For FY 1999, 19 subgrantees reported receiving \$610,199 in voluntary contributions. We reviewed three subgrantees to identify matching requirements in the grant agreements, amount of voluntary contributions received and amount of contributions used for cost matching. We selected and visited one of the three subgrantees to determine if the subgrantee used the voluntary contributions to expand services or for meeting the matching requirements.

We conducted our field work at AoA, the State agency and one of its subgrantee agencies. Our field work started in January 2000 and was completed in June 2000.

RESULTS OF AUDIT

VOLUNTARY CONTRIBUTIONS USED FOR COST SHARING

Current AoA regulations permit States to use voluntary contributions as added funds committed to the project or program or to meet cost-sharing or matching requirements of their grant agreements. We believe that the use of voluntary

contributions to meet cost-sharing or matching requirements is contrary to section 307(a)(13)(C)(ii) of the Act, which requires that voluntary contributions be used to increase the services provided under the grant. According to final financial status reports submitted to

AoA for FY 1996, 28 States and DC used \$90.8 million of voluntary contributions to meet matching requirements of their grant agreements. The 28 States and DC reported using \$64.6 million of voluntary contributions for matching purposes in FY 1999.

Voluntary Contributions Should be Used to Increase Services Provided Under Grant Agreements

The Act, section 307(a)(13)(C)(i), as amended, requires that each nutrition project permit recipients of grants or contracts to solicit voluntary contributions for meals furnished by the nutritional program. In addition, section 307(a)(13)(C)(ii) requires that voluntary contributions be used to increase the number of meals served, to facilitate access to such meals, and to provide other supportive services directly related to nutrition services.

AoA Regulations Permit States to Elect to Use Voluntary Contributions to Meet Matching Requirements

The AoA regulations, 45 Code of Federal Regulations (CFR) 1321.67(b) published in August 1988, stated that "each service provider shall use supportive services and nutrition services contributions to expand supportive and nutrition services, respectively. To that end, the State agency shall: (1) permit service providers to follow either the addition alternative or the cost sharing alternatives as stated in 45 CFR 92.25 (g) (2) and (3); or (2) a combination of the two alternatives". However, the concept of using voluntary contributions to match is contrary to the Act's intent to expand services by increasing the number of meals and related supportive services. Accordingly, the AoA should amend the regulations as soon as possible because using voluntary contributions to match does not expand services.

Voluntary Contributions Not Used to Expand Services

Financial status reports submitted by the States to AoA showed that for FY 1996 and FY 1999 a total of \$155.4 million of voluntary contributions was used for State matching purposes rather than expanding services. We found that 28 States and DC reported using \$90.8 million or 39 percent of the \$234.1 million in voluntary contributions for matching on their final financial status report for FY 1996 (See Appendix A). To determine if States continued to report using voluntary contributions for matching, we examined the first annual FY 1999 financial status report. We found that approximately \$64.6 million or 35 percent of the \$187.4 million in voluntary contributions was also used for matching by the 28 States and DC.

Our review in the State agency confirmed that contributions were used for matching purposes. We reviewed records at the State agency and its subgrantees and determined that the \$610,199 in voluntary contributions received by the 19 subgrantees for FY 1999 were used by all the subgrantees for matching. Three subgrantees we reviewed did not use contributions to expand services for the elderly, but supplanted the local match requirement with voluntary

contributions. The State agency informed us that the remaining subgrantees also used voluntary contributions to meet their local match requirement.

OTHER MATTERS

Our review of the financial status reports for the Title III nutritional and supportive program disclosed two events which should have resulted in action by AoA to redistribute available funds for nutritional and supportive services for the elderly.

These were: (1) accumulation of undisbursed program income, and (2) unobligated Federal funds. The following is a summary of these issues.

Undisbursed Program and Interest Income

The final financial status reports for FY 1996 submitted to AoA in March 1999 disclosed that six States reported accumulating \$9.8 million in undisbursed program income (voluntary contributions). These funds should have been used by the six States before they requested any additional Federal cash payments to provide nutritional and supportive services to the elderly. The Department's regulation for cash management practices, 45 CFR 92.21(f)(2), states that "...grantees and subgrantees shall disburse program income, ...and interest earned on such funds before requesting additional cash payments." The undisbursed program income increased to approximately \$11.4 million in FY 1999 for eight States (See Appendix B). Further, we did not find any authority that allows grantees to maintain voluntary contributions in escrow or reserve type accounts throughout the year. However, to the extent that States are doing this, the interest earned on such accounts would constitute program income and must also be used to expand services.

As an illustration, the Commonwealth of Pennsylvania had \$5.4 million of undisbursed program income reported on the financial status report as of September 30, 1996. In addition, Pennsylvania is earning interest on the voluntary contributions. A statewide audit report of the Commonwealth of Pennsylvania, Department for the Aging (PDA) which covered the period ending June 30, 1996, disclosed that the PDA had a year-end balance of \$7.8 million in program income and \$2.3 million in accumulated interest. According to PDA records, the interest and income balances were maintained by Area Agencies on Aging (AAA) throughout FY 1996 because it was PDA's policy to allow AAAs to maintain program income throughout the year and spend it in the subsequent year.

As recently as September 30, 1999, the PDA reported on its financial status report having approximately \$3.8 million in undisbursed program income. The AoA did not instruct the PDA to use the funds before any requests for Federal funds because neither AoA's regulations nor program instructions state that voluntary contributions are program income or when State agencies are to use the funds. However, we believe that the contributions are program income in accordance with 45 CFR 92.25 which defines program income as "gross income received by the grantee or subgrantee directly generated by a grant supported activity, or earned only as a result of the grant agreement during the grant period."

Unobligated Federal Funds

We identified 16 States and Puerto Rico which had \$557,724 of unobligated FY 1996 Title III funds which lapsed without being made available to other States through AoA's reallocation process. If funds are not obligated in the first year or used within 2 years following the end of the Federal FY in which the grant funds were allotted to the States, they must be returned to the Treasury Department. To ensure that unobligated funds are used for program purposes before obligation authority expires, AoA needs to strengthen its process and reallocate the unused funds to other States demonstrating a need for additional Title III funding.

The AoA officials informed us the States are not reporting unobligated Federal funds timely on the financial status reports so that AoA can reallocate the funds to one or more States. For example, the State of Mississippi reported \$163,000 of unobligated funds after the funds lapsed on September 30, 1998. Accordingly, the funds were not reallocated to other States by AoA for better use. Because AoA did not have the opportunity to reallocate the \$163,000, other States were deprived of the FY 1996 funds not used by Mississippi. For example, the Maine State Agency, in September 1998, requested \$250,000 of reallocated Title III funds to serve the 200 consumers and care givers on the waiting lists for Alzheimer's respite and adult day services throughout the State. Each August, AoA requests State agencies to advise if any current FY funds are not needed. Once reallocated to another State, funds are available for obligation by the State agency to provide services in the remainder of the current and following FY.

RECOMMENDATIONS

We recommend that AoA:

1. Revise its regulations to inform States that:
 - ✓ voluntary contributions are not to be used for cost sharing or matching;
 - ✓ accumulated voluntary contributions are to be used prior to making Federal draw downs; and
 - ✓ voluntary contributions and related interest earned are program income and must be used to expand services.
2. Review the current process to identify States which have a history of unobligated or unliquidated fund balances and provide monitoring and technical assistance to such States to assure that funds are reallocated to other States in a timely manner.
3. Step up efforts for monitoring the financial status reports to ensure that all available funding is used to satisfy the needs of the elderly.

AOA RESPONSE AND OIG COMMENTS

In the January 8, 2001 response to the draft report, AoA generally agreed with the findings and recommendations. The AoA provided details on actions they are taking to correct the issues identified in our report. Based on the information provided by AoA concerning Unobligated Federal Funds, we made revisions to the appropriate section of the report and recommendation number two. The AoA comments to our draft report are summarized below and are included in their entirety in Appendix C.

Voluntary Contributions Used for Cost Sharing

The AoA agreed that voluntary contributions are not to be used for cost sharing or matching. The AoA indicates it will submit revised regulations to make clear that voluntary contributions must be used to expand services.

Undisbursed Program and Interest Income

The AoA agreed that the very large unspent balances accumulated by some grantees appear to be excessive and not in keeping with the statutory provision that requires that voluntary contributions be used to expand services. Accordingly, AoA will submit regulations to clarify that voluntary contributions are to be treated as program income and to specify the time frame within which voluntary contributions must be spent. The regulations will also propose that interest earned on undisbursed voluntary contributions must be treated as program income and be used to expand services.

Unobligated Federal Funds

The AoA agreed that all Federal funds be spent productively. However, after AoA consulted with the Office of the General Counsel, AoA indicated that current procedures accurately reflect the limits of their authority under the statute. Nevertheless, AoA agreed to strengthen the process by which they track unobligated and unliquidated funds by State over time and will closely monitor States that have a pattern of lapsing funds, as well as provide them with additional technical assistance.

**VOLUNTARY CONTRIBUTIONS
(PROGRAM INCOME)
USED TO COST MATCH**

STATES	<u>FY 1996</u> 28 States and DC	<u>FY 1999</u> 28 States and DC
1 ALABAMA	\$2,031,457	\$2,163,694
2 ARKANSAS	\$2,234,924	\$1,537,768
3 CALIFORNIA	\$27,438,249	\$20,173,480
4 CONNECTICUT	\$3,161,497	\$2,540,198
5 D.C.	\$735,169	\$610,199
6 FLORIDA	\$4,110,710	\$1,032,973
7 GEORGIA	\$1,434,700	\$1,154,255
8 IDAHO	\$2,331,536	\$1,852,725
9 KANSAS	\$498,999	\$475,433
10 KENTUCKY	\$1,639,525	\$103,411
11 LOUISIANA	\$2,457,238	\$2,259,468
12 MAINE	\$559,522	\$547,394
13 MASSACHUSETTS	\$6,559,379	\$7,157,735
14 MISSISSIPPI	\$358,122	\$213,929
15 MONTANA	\$139,823	\$21,452 *
16 NEBRASKA	\$4,560,284	\$5,082,385
17 NEW MEXICO	\$1,951,952	\$2,366,144
18 NEW YORK	\$9,353	\$208,420
19 OKLAHOMA	\$3,148,227	\$3,896,166
20 RHODE ISLAND	\$3,594,669	\$1,402,127
21 SOUTH CAROLINA	\$710,831	\$475,257
22 TENNESSEE	\$3,091,240	\$1,968,042
23 TEXAS	\$9,771,849	\$3,388,015
24 UTAH	\$113,248	\$19,070 *
25 VERMONT	\$918,934	\$287,705
26 VIRGINIA	\$1,325,611	\$45,040
27 WEST VIRGINIA	\$454,238	\$499,603
28 WYOMING	\$2,349,123	\$1,229,145 *
29 WASHINGTON	\$3,133,850	\$1,908,227
Total	<u>\$90,824,259</u>	<u>\$64,619,460</u>

* The FY 1999 data available was for the period ending March 31, 1999

Schedule of Undisbursed Program Income and Unobligated Federal Funds

STATES	Undisbursed Program Income		Unobligated Federal Funds	
	FY 1996	FY 1999	FY 1996	FY 1999
Connecticut			\$73,096	
Colorado	\$376,205		\$1,531	\$1,787,004
Delaware			\$13,679	
Georgia			\$62,674	
Hawaii		\$6,909	\$17,452	
Indiana			\$545	
Illinois		\$749,490		
Iowa	\$3,769,400	\$4,257,848		
Kansas			\$662	\$939,688
Kentucky			\$4	
Louisiana			\$21,752	
Mississippi			\$162,649	
Montana	\$20,644	\$41,385 *		
North Dakota	\$65,599	\$370,174	\$4,202	
New Jersey			\$20,554	
New Mexico		\$3,840	\$20,400	\$5,164
New York			\$15,565	
Ohio			\$71,110	
Pennsylvania	\$5,403,279	\$3,793,024		
South Dakota				\$3,017,788 *
Texas	\$209,845			
Vermont				\$252,892
Wisconsin		\$2,198,347		\$48,695
West Virginia			\$5,082	
<i>Puerto Rico</i>			\$66,767	
TOTAL	\$9,844,972	\$11,421,017	\$557,724	\$6,051,231

* The FY 1999 data available was for the period ending March 31, 1999

JAN - 8 2001

TO: June Gibbs Brown
Inspector General

FROM: Assistant Secretary for Aging

SUBJECT: Response to Draft Report, *States' Use of Voluntary Contributions Under Title III of the Older Americans Act* -- (A-12-00-00002)

Thank you for the opportunity to comment upon and respond to the draft report, *States' Use of Voluntary Contributions Under Title III of the Older Americans Act*. I understand that these comments will be included in the body of your final report as well as attached as an appendix.

Voluntary Contributions Used for Cost Sharing

The Administration on Aging (AoA) agrees that the current regulations at 45 CFR 1321.67(b) and 1321.73 are inconsistent with section 307(a)(13)(C)(ii) of the Older Americans Act (OAA) to the extent that these regulations would allow voluntary contributions received in OAA-funded meals programs to be used as match. Accordingly, the AoA will submit revised regulations to make clear that voluntary contributions cannot be used for cost sharing or matching, but must instead be used to expand services.

Undisbursed Program and Interest Income

Historically, the Administration on Aging (AoA) has maintained a distinction between program income and voluntary contributions. This distinction is based on the separate statutory provisions relating to voluntary contributions. However, the AoA does agree that this distinction could generate some confusion among grantees. The Administration on Aging on (AoA) also agrees that the very large unspent balances accumulated by some grantees appear to be excessive and not in keeping with the statutory provision that requires that voluntary contributions be used to expand services. Accordingly, AoA will submit regulations that will clarify that voluntary contributions are to be treated as program income and that will specify the time frame within which voluntary contributions must be spent.

However, because of the nature of voluntary contributions and the role they play in OAA programs, these regulations will propose giving greater flexibility to grantees in the expenditure of these funds than currently is provided by Departmental grant regulations. Specifically, AoA will not require that grantees expend voluntary contributions prior to

drawing down Federal grant funds in all cases. Rather, AoA will propose to allow grantees to expend voluntary contributions in an orderly and structured manner, commensurate with the schedule by which grantees expend grant funds and to allow grantees to accumulate such income, within reason, in anticipation of large purchases, such as major kitchen equipment. The regulations will also propose that interest earned on undisbursed voluntary contributions must be treated as program income and be used to expand program services.

Unobligated Federal Funds

The Administration on Aging (AoA) appreciates the discussions that have taken place with the OIG reviewers related to this area. We share your desire that all federal funds be spent productively. However, after further consultation with the Office of the General Counsel, we are unable to accept the recommendation to revise the reallocation process as it is currently implemented. Our current procedures accurately reflect the limits of our authority under the statute as it is currently worded.

Administration on Aging (AoA) and your staff recognize the practical constraints facing States in projecting obligations and outlays within a network comprising over 600 Area Agencies on Aging and over 27,000 service providers. I believe we also are in agreement that while the amounts of funds that must be returned to the Federal government because they are not obligated in the current year or liquidated by the end of the second year following the obligation period is small relative to the size of the title III program, we must strive to ensure that lapsed amounts are kept to an absolute minimum. As our staffs have discussed, AoA will be strengthening the processes by which we track unobligated and unliquidated funds by State over time and will closely monitor States that have a pattern of lapsing funds, as well as provide them with additional technical assistance.

Again, we appreciate the opportunity to respond to your draft report.



Jeanette C. Takamura