



# Memorandum

Date .APR 25 1997

From June Gibbs Brown *June Gibbs Brown*  
Inspector General

Subject Summary Report on Nationwide Audit of Training Contract and Administrative  
Costs Charged to Department of Health and Human Services Supported  
Programs (A-02-95-02002)

To

John J. Callahan  
Assistant Secretary for  
Management and Budget

The attached summary report, representing audits in seven States, provides you with the results of the Office of Inspector General's review entitled, "Nationwide Audit of Training Contract and Administrative Costs Charged to Department of Health and Human Services Supported Programs." The training costs reviewed were claimed under programs administered by the Administration for Children and Families and the Health Care Financing Administration.

Overall, improper practices for identifying and charging training and administrative costs existed to some extent in all seven States reviewed. As a result, we have recommended financial adjustments totaling \$58,222,453 (\$36,866,400 Federal share). Of this amount, \$36,732,991 (\$24,193,954 Federal share) relates to the State of New York.

In responding to our draft audit report (Appendix B), the Assistant Secretary for Management and Budget (ASMB) was in substantial agreement with our findings and offered comments and corrective actions it anticipated taking in the future. In addition, ASMB concurred with our recommendations and indicated it would take appropriate action to not only notify operating agencies of the findings in the report but also coordinate efforts to periodically review future training expenditures.

We would appreciate the status of any action taken or contemplated on our recommendations within the next 60 days. If you have any questions, please contact me or have your staff contact John A. Ferris, Assistant Inspector General for Administrations of Children, Family and Aging Audits, at (202) 619-1175.

Attachment

**Department of Health and Human Services**

**OFFICE OF  
INSPECTOR GENERAL**

**NATIONWIDE AUDIT OF TRAINING  
CONTRACT AND ADMINISTRATIVE  
COSTS CHARGED TO DEPARTMENT OF  
HEALTH AND HUMAN SERVICES  
SUPPORTED PROGRAMS**



**JUNE GIBBS BROWN**  
Inspector General

**APRIL 1997**  
**A-02-95-02002**

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## EXECUTIVE SUMMARY

This report provides a summary of the results of our nationwide audit of training contract and administrative costs charged to the Department of Health and Human Services supported programs in the States of New York, Illinois, California, Missouri, Oklahoma, Florida and New Jersey. Collectively, these States claimed approximately \$310 million in training costs during the audit periods.

The primary objective of the audits performed in the States other than New York was to determine if some or all of the conditions found during our earlier reviews of training practices in New York, including those reported under Common Identification Number: A-02-93-02006, also existed in other States. Specifically, the audit objectives were to determine if:

- Contract training costs and related administrative expenses were properly allocated between Federal participating (FP) and Federal non-participating (FNP) programs.
- Administrative costs applicable to title IV-E training activities were claimed at the correct Federal financial participation (FFP) rate (i.e. 50 percent versus 75 percent).
- Contract training costs were claimed at the appropriate FFP rate.
- Training contractors were able to document costs claimed, including their matching share.
- Third party in-kind contributions were used to meet the State's share of training costs.
- Revenue received from training activities was accounted for in accordance with applicable Federal regulations.

In New York, the primary objective was to provide audit assistance to the Division of Cost Allocation (DCA) in verifying that the New York State Department of Social Services (NYSDSS) did not allocate training contract and administrative costs between FP and FNP programs. This information would then be taken into consideration during DCA's negotiations with NYSDSS to resolve this issue.

Our audits determined that:

- In five States (New York, Illinois, California, Missouri and Oklahoma), training contract and administrative costs were not allocated to all benefiting programs. New York did not equitably charge training contract and

administrative costs to the Federal titles IV-A, IV-E and XIX programs because it did not allocate costs between FP and FNP programs. In the remaining four States, we found that title IV-E training costs were not equitably allocated between FP and FNP programs. In total, we calculated that \$49,360,836 (\$33,264,270 Federal share) charged to Federal programs should have been allocated to FNP programs.

- In five States (Illinois, Florida, Oklahoma, Missouri and New Jersey), title IV-E foster parent recruitment and administrative costs were claimed at the enhanced FFP rate of 75 percent, rather than the allowable rate of 50 percent. As a result, the States' claims were overstated by \$5,937,263 (\$1,484,316 Federal share) for Federal reimbursement.
- In Illinois, training costs claimed by universities included unallowable and unsupported expenses totaling \$1,740,719 (\$1,305,539 Federal share).
- In two States (Florida and California), \$997,850 (\$672,999 Federal share) of third party in-kind contributions used as the State's share of training costs did not meet the definition of allowable costs under State and Federal criteria. In addition, in California we have classified \$1,333,690 (\$725,960 Federal share) of expenses as unresolved costs because of conflicting Regional and Headquarters Administration for Children and Families policy regarding the allowability of third party contributions for meeting the State's matching requirements.
- In Florida, the State's accounting records reflected \$148,627 less in training costs than the amount which was claimed to the Federal Government. In Illinois, lease costs of \$36,450 were inadvertently allocated to the title IV-E program. In Oklahoma, \$708 of a dependent care grant was incorrectly charged to titles IV-E and XIX training. In total, the Federal Government was overbilled by \$139,276.
- In New Jersey, training costs were not offset by revenue earned from training activities. We did not recommend a financial adjustment because, during the audit period, the State did not include allowable training costs in excess of the amount overstated in the computation of amounts eligible for FFP. In Missouri, the State's cost allocation plan (CAP) allocated training costs only to Foster Care programs even though other programs such as Emergency Assistance benefited. We did not identify or quantify any potential excess FFP received by the State because these training costs were claimed under an approved CAP. In Illinois, indirect cost rates for two universities were not reviewed by the State agency to ensure that the rates were developed in accordance with Federal cost principles. We did not

recommend a financial adjustment because the propriety of the universities' indirect cost rates was not included in the scope of the review.

Overall, we found improper practices for identifying and charging training and administrative costs existed to some extent in all seven States reviewed. As a result, we have recommended financial adjustments totaling \$58,222,453 (\$36,866,400 Federal share).

The Assistant Secretary for Management and Budget (ASMB) has been assigned the responsibility to negotiate all public assistance CAPs through which all administrative costs (direct and indirect) are normally charged to Federal programs. This responsibility also includes resolution of all government-wide accounting issues that impact public assistance programs, such as those identified in this report. Therefore, we recommend that the ASMB advise other entities involved in administering training contracts of the conditions found in this review. We also recommend that the ASMB coordinate efforts to periodically review future training expenditures claimed by the States to ensure that they continue to adhere to regulations governing the allocation and claiming of training costs.

In responding to our draft audit report (Appendix B), ASMB was in substantial agreement with the findings in the report and offered comments and corrective actions it anticipated taking in the future. In addition, ASMB fully concurred with our recommendations and indicated it would take appropriate action to not only notify operating agencies of the findings in the report but also coordinate efforts to periodically review future training expenditures.

# INTRODUCTION

## Background

In February 1996, we issued a report which detailed the results of a review we conducted with the Department of Justice (DOJ) of training contract and administrative costs claimed by the New York State Department of Social Services (NYSDSS) in the period April 1, 1983 through June 30, 1994 [Common Identification Number (CIN): A-02-93-02006]. The report also detailed the terms of a December 20, 1994 agreement with New York which settled overbillings made by NYSDSS to Federal programs that were disclosed by the review. The overbillings resulted in part from NYSDSS':

- Use of third party in-kind contributions from private contractors as the State's share of training expenditures.
- Failure to credit administrative fees collected from private training contractors against training costs charged to the Federal Government.
- Inclusion of unallowable and unallocable expenses in its claimed training costs.
- Failure to offset training costs charged to the Federal Government for training fees paid by private agencies.

In our earlier report, we stated we had initiated a nationwide review of training contract and administrative costs in six additional States to determine if the improper practices found in our New York review had been adopted elsewhere. Our nationwide review included the States of Illinois, California, Missouri, Oklahoma, Florida and New Jersey. Also, as part of the nationwide review, we performed additional audit work in New York, which included reviewing the allocation of training contract and administrative costs between Federal participating (FP) and Federal non-participating (FNP) programs.

## Scope and Methodology

The objective of this report is to provide an overview of the results of our nationwide review of training contract and administrative costs charged to Federal programs in the States of New York, Illinois, California, Missouri, Oklahoma, Florida and New Jersey. The individual State reviews were conducted by respective Office of Audit Services (OAS) regional offices in each State's geographic area. Each OAS region coordinated the audit work with the responsible State agency, and written reports of results of review were issued to the States under separate CINs. In compiling this report, we requested

information from each participating OAS regional office. The individual reports issued to each State included in the nationwide review are shown below.

<u>STATE</u>	<u>AUDIT PERIOD</u>	<u>CIN</u>	<u>REPORT</u>	<u>ISSUE DATE</u>
New York	04/01/87-03/31/95	A-02-96-02000	Final	May 1996
Illinois	01/01/92-12/31/94	A-05-96-00013	Final	August 1996
Illinois	01/01/92-12/31/94	A-05-95-00022	Final	February 1996
California	04/01/92-03/31/95	A-09-95-00056	Final	August 1996
Missouri	07/01/91-06/30/94	A-07-95-01008	Final	February 1996
Oklahoma	07/01/93-06/30/94	A-06-95-00037	Final	October 1996
Florida	07/01/93-06/30/95	A-04-95-00085	Final	March 1996
New Jersey	07/01/92-06/30/93	A-02-95-02003	Final	May 1996

All of the individual State reviews were made in accordance with generally accepted government auditing standards. We made limited studies and evaluations of internal controls to ensure the accuracy of training claims and conducted such tests and other auditing procedures as were considered necessary. The specific objectives of the audits performed in the States other than New York were to determine if:

- Contract training costs and related administrative expenses were properly allocated between FP and FNP programs.<sup>1</sup>
- Administrative costs applicable to title IV-E training activities were claimed at the correct Federal financial participation (FFP) rate (i.e. 50 percent versus 75 percent).
- Contract training costs were claimed at the appropriate FFP rate.
- Training contractors were able to document costs claimed, including their matching share.
- Third party in-kind contributions were used to meet the State's share of training costs.

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<sup>1</sup>This issue was identified during our review of training practices within New York State, but was not included in the settlement agreement dated December 20, 1994 that finalized the DOJ and Office Inspector General review (CIN: A-02-93-02006).

- Revenue received from training activities was accounted for in accordance with applicable Federal regulations.

In New York, the primary objective was to provide audit assistance to the Division of Cost Allocation (DCA) in verifying that NYSDSS did not allocate training contract and administrative costs between FP and FNP programs. This information would then be taken into consideration during DCA's negotiations with NYSDSS to resolve this issue.

To accomplish our objectives, we:

- Met with Department of Health and Human Services (HHS) officials and State personnel to discuss how State training programs operated.
- Reconciled training costs claimed for the audit periods to accounting records and other supporting documentation.
- Obtained and reviewed training contracts with both public and private contractors.
- Reviewed Federal regulations, Departmental Appeals Board (DAB) decisions, Administration for Children and Families (ACF) guidelines and State Plans.

## RESULTS OF NATIONWIDE REVIEW

### Allocation of Training Costs to Benefiting Programs

Training costs were not allocated to all benefiting programs. As summarized in the following table, \$49,360,836 (\$33,264,270 Federal share) was improperly claimed to the Federal Government:

STATE	RECOMMENDED ADJUSTMENT	FEDERAL SHARE	% TO TOTAL
New York	\$36,732,991	\$24,193,954	74.42%
Illinois	\$8,283,904	\$5,812,360	16.78%
California	\$4,007,083	\$3,005,312	8.12%
Missouri	\$289,877	\$217,408	.59%
Oklahoma	\$46,981	\$35,236	.09%
<b>TOTAL</b>	<b>\$49,360,836</b>	<b>\$33,264,270</b>	<b>100.00%</b>

Federal regulations and program policy require that training costs be allocated to benefiting programs in such a manner as to ensure that each participating program is charged its proportionate share of costs.

Attachment A, Paragraph C.2.a. of Office of Management and Budget (OMB) Circular No. A-87, stipulates that "A cost is allocable to a particular cost objective to the extent of benefits received by such objective." Also, Attachment A, Paragraph C.3.a. states costs of goods or services are chargeable to a particular cost objective in accordance with relative benefits received. And, Attachment A, Paragraph J.1. requires that: "A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual changes."

The Administration for Children, Youth and Families (ACYF), predecessor to ACF, issued two Policy Announcements that dealt directly with the allocation of costs to both FP and FNP programs. Policy Announcement ACYF-PA-87-05, issued October 22, 1987, stated that allowable administrative costs including

training costs "...must be allocated to title IV-E, State foster care and other State/Federal programs in such a manner as to assure that each participating program is charged its proportionate share of the costs." The 1987 Policy Announcement was supported by a second Policy Announcement, ACYF-PA-90-01, issued June 14, 1990. In addition, ACF issued ACF-IM-91-15 addressing the allocation of foster care and adoption assistance costs. This supported the two Policy Announcements and stated that training costs must be allocated among all benefiting programs.

In August 1995, the DAB issued a decision which made clear that joint training costs must be allocated to all benefiting programs. This decision related to an appeal filed by the Illinois Department of Children and Family Services (State agency). In its appeal, the State agency acknowledged that its foster care training also benefited children who did not meet the title IV-E eligibility requirements. However, the State agency contended that costs determined to be directly related to the purpose of title IV-E were allocable 100 percent to the program, regardless of whether there might have been some incidental or collateral benefit to other programs.

In Decision No. 1530, dated August 3, 1995, the DAB asserted that the State agency's position had no merit. The DAB concluded that joint training costs should have been allocated to all benefiting programs and suggested an eligibility ratio could have been used to allocate joint administrative costs among programs. Thus, each program should have been charged only its allocable costs based on benefits received.

## **New York**

Under CIN: A-02-91-02002 and CIN: A-02-92-02007, we reviewed training costs claimed by NYSDSS and found that training contract and administrative costs were not allocated to all benefiting programs for the period April 1, 1987 through March 31, 1991. Our reviews showed that NYSDSS did not equitably charge its training contract and administrative costs to the Federal titles IV-A, IV-E and XIX programs because it did not allocate costs between FP and FNP programs. The FNP programs were State programs which were not supported by Federal funds, such as the Home Relief program and the State Mandated Medical Assistance and Foster Care programs.

With representatives of ACF, the Office of Human Development Services (OHDS) and HCFA, we reviewed course descriptions and course materials of training contracts that NYSDSS charged to titles IV-A, IV-E and XIX, respectively. All agreed that training benefited FNP programs and NYSDSS should have allocated training costs to FNP programs accordingly.

Because New York could not support its position that all training was provided to only employees working on Federal programs, and based on the training contract data reviewed, we allocated titles IV-A, IV-E and XIX training contract and administrative costs to both FP and FNP programs. For the period April 1, 1987 through March 31, 1991, \$17,808,894 (\$11,783,250 Federal share) of the total training contract and administrative costs charged to titles IV-A, IV-E and XIX should have been allocated to FNP programs.

The issue of allocating training costs to benefiting programs was not included as part of the settlement agreement signed by New York on December 20, 1994 that finalized the DOJ and HHS, Office of Inspector General (OIG) review (CIN: A-02-93-02006). The NYSDSS disagreed with our position and filed an appeal to the HHS Regional Director. Thus, along with other audit issues that were identified during the two previous reviews of training costs (CIN: A-02-91-02002 and CIN: A-02-92-02007), HHS, DCA began discussions with New York to settle the issue administratively and resolve the matter of allocating training costs to benefiting programs.

Under CIN: A-02-96-02000, we provided additional audit assistance to HHS, DCA on this issue. Our review showed that NYSDSS continued its practice of not allocating training contract and administrative costs to all benefiting programs for the period April 1, 1991 through March 31, 1995. Therefore, we calculated the amount of titles IV-A, IV-E and XIX training contract and administrative costs which should have been allocated between FP and FNP programs. For the period April 1, 1991 through March 31, 1995, we determined that \$18,924,097 (\$12,410,704 Federal share) of the total training contract and administrative costs charged to titles IV-A, IV-E and XIX should have been allocated to FNP programs.

### **Recommendation**

Because HHS, DCA was holding preliminary discussions with New York to settle this issue, we recommended that HHS, DCA consider the results of our reviews during its resolution process. In this regard, for the period April 1, 1987 through March 31, 1995, \$36,732,991 (\$24,193,954 Federal share) of total training contract and administrative costs charged to the titles IV-A, IV-E and XIX programs should have been allocated to FNP programs.

### **State Comments and OIG Response**

See Page 1 of Appendix A for State comments and OIG response.

## **Illinois**

During the period January 1, 1992 through December 31, 1994, the State agency was responsible for administering the title IV-E program. For the 3-year period ended December 31, 1994, the State agency did not allocate costs to all benefiting programs. As a result, costs of \$8,283,904 (\$5,812,360 Federal share) were improperly claimed under the title IV-E program.

### **Recommendation**

The audit team recommended that the State agency:

- Make a financial adjustment of \$8,283,904 (\$5,812,360 Federal share) to the title IV-E program.
- Develop and implement a cost allocation plan (CAP) for distributing training costs to all benefiting programs.

### **State Comments and OIG Response**

See Page 1 of Appendix A for State comments and OIG response.

## **California**

The State did not consistently follow required procedures for allocating training contract costs between Federal and State Foster Care programs for the period April 1, 1992 through March 31, 1995. The California counties of Los Angeles (LA) and Sacramento allocated training contract costs between Federal and State Foster Care programs in the prescribed manner. However, costs related to a State training contract with the University of California at Berkeley (UC Berkeley) were not allocated between the two programs. Instead, the costs were charged entirely to the Federal Foster Care program. As a result, costs claimed for Federal reimbursement were overstated by \$4,007,083 (\$3,005,312 Federal share).

### **Federal and State Requirements for Allocating Costs**

The State's federally approved CAP was consistent with Policy Announcement ACYF-PA-90-01 and required that training costs should have been allocated to title IV-E on the basis of case count of title IV-E eligible children to all children under foster care. In implementing this policy, the State issued instructions to counties requiring that foster care costs, including training contract costs, should

be allocated between the Federal and State Foster Care programs on the basis of child caseload statistics.

## **County and State Allocations**

The counties reviewed were allocating foster care costs between Federal and State programs in accordance with Federal requirements and State instructions. However, the State did not allocate any of the costs of its contract with UC Berkeley to the State Foster Care program. Instead, all of the costs were claimed under the Federal program. The contract was for the operation of a statewide program known as the California Social Work Education Center, often referred to as CALSWEC.

On June 19, 1992, the State wrote a letter to ACF officials in Region IX expressing its concerns regarding the application of the nonfederal caseload percentage to eligible title IV-E staff development costs. In the letter, the State requested reconsideration of the policy requirement for allocating training costs to the State Foster Care program. The State did not agree with the Federal policy requiring the allocation of training costs between Federal and State programs. However, the review of subsequent correspondence between the State and ACF and our discussions with ACF Region IX officials did not disclose evidence of approval of the State's request.

For the period April 1, 1993 through March 31, 1995, the State claimed \$16,335,163 (\$12,251,372 Federal share) of costs related to its contract with UC Berkeley. By applying the statewide ratios of State foster care caseload to total foster care caseload, the audit team determined that \$4,007,083 should have been allocated to the Federal Foster Care program.

The audit included costs claimed by the State for the 3-year period ended March 31, 1995. The review indicated that the State continued to charge all costs of its training contract with UC Berkeley to the Federal Foster Care program in periods subsequent to the audit period.

## **Recommendation**

The audit team recommended that the State:

- Initiate action to ensure that all foster care training contract costs are allocated to both Federal and State Foster Care programs in accordance with Federal policy, the State's approved CAP and written State policy.
- Refund to the Federal Government \$3,005,312, the Federal share of \$4,007,083, and make adjustments to claims covering periods subsequent to

March 31, 1995 for costs that should have been allocated to the State Foster Care program.

## **State Comments and OIG Response**

See Page 2 of Appendix A for State comments and OIG response.

### **Missouri**

For the period July 1, 1991 through June 30, 1994, the State did not allocate direct foster care training costs to the benefiting State Foster Care program. An acceptable allocation method would have been the respective case count percentages for federally eligible and State-only children in foster care. As a result, the State overclaimed \$289,877 (\$217,408 Federal share) to the title IV-E program because costs were not allocated to the State-only program.

### **Recommendation**

The audit team recommended that the State:

- Refund \$289,877 (\$217,408 Federal share) to the title IV-E program.
- Identify unallowable FFP claimed subsequent to the audit period and refund that amount to the title IV-E program.
- Allocate future direct training costs to both State-only and Federal programs to the extent of benefits received by each.

## **State Comments and OIG Response**

See Page 3 of Appendix A for State comments and OIG response.

### **Oklahoma**

For the review period July 1, 1993 through June 30, 1994, the State identified \$472,072 of child welfare training costs. For the quarter ended June 30, 1994, \$93,402 was charged to the Federal title IV-E program and claimed at the 75 percent FFP rate. However, the costs benefited not only the title IV-E program, but the State Foster Care program, as well. The \$93,402 of costs for one quarter was placed in the wrong account and not properly allocated to all benefiting programs.

The State computed that \$46,981 of the \$93,402 applied to the State Foster Care program based on the number of children and length of time the children spent in the title IV-E and State Foster Care programs. In the audit team's opinion, the computation was reasonable. Because the State did not allocate these costs to the State Foster Care program, there was an overclaim of \$46,981 (\$35,236 Federal share) to title IV-E.

### **Recommendation**

The audit team recommended that the State refund \$46,981 (\$35,236 Federal share) to the title IV-E program for State costs incorrectly charged to title IV-E. The State agreed to make adjustments on the title IV-E reports to reflect the correct charges to the Federal Foster Care program.

### **State Comments and OIG Response**

See Page 4 of Appendix A for State comments and OIG response.

## Federal Share of Title IV-E Training Activities and Administrative Costs

Title IV-E costs were claimed at the enhanced FFP rate of 75 percent, rather than at the allowable FFP rate of 50 percent. These costs were for activities that did not meet the definition of eligible training as specified in Federal regulations. As summarized in the following table, \$5,937,263 (\$1,484,316 Federal share) was improperly claimed to the Federal Government.

STATE	RECOMMENDED ADJUSTMENT	FEDERAL SHARE	% TO TOTAL
Illinois	\$5,637,221	\$1,409,305	94.94%
Florida	\$296,072	\$74,018	4.99%
Oklahoma	\$3,970	\$993	.07%
Missouri	\$0	\$0	0.00%
New Jersey	\$0	\$0	0.00%
<b>TOTAL</b>	<b>\$5,937,263</b>	<b>\$1,484,316</b>	<b>100.00%</b>

Several Federal regulations address FFP availability for title IV-E training activities:

- The Code of Federal Regulations (CFR) at 45 CFR 1356.60(b)(1) states FFP under title IV-E is available at the 75 percent rate for "the cost of training personnel employed or preparing for employment by the State or local agency administering the plan."
- 45 CFR 1356.60(b)(3) provides that short and long term training at educational institutions and in-service training could be provided in accordance with 45 CFR 235.63 through 235.66(a). Specifically, 45 CFR 235.64(c) provides a listing of cost elements for which FFP at the 75 percent rate was available for training and education outside the agency. Administrative (indirect) costs are not included in this listing. In addition, 45 CFR 235.64(d) states FFP at the 75 percent rate is available for payments to educational institutions for salaries, fringe benefits, travel of instructors, clerical assistance, teaching material and equipment. Administrative (indirect) costs are not included in this listing either.

In addition, the propriety of claiming indirect costs at the rate of 75 percent under title IV-E was addressed in previous DAB Decision Nos. 1422, 1463 and 1530. The latter decision indicated that if the indirect costs were based on rates determined from cost pools containing other than allowable training costs, indirect costs of the State agency may not be charged as training at the 75 percent FFP rate. Instead, the indirect costs should be claimed at the Federal reimbursement rate of 50 percent for administrative costs.

In an April 1994 memorandum, the Director of ACF, Office of Financial Management (OFM) addressed the reimbursement rate for indirect costs associated with title IV-E training activities. The memorandum essentially advised Regional Administrators to notify the States in their respective regions that administrative costs would be reimbursed at the 50 percent rate. For the time period prior to ACF's notification of the proper rate to be used, ACF did not require States to make financial adjustments for overclaims.

For foster parent training, the Congress enacted legislation that generally allowed States to claim the costs at the enhanced FFP rate of 75 percent. However, for the period October 1, 1992 through September 30, 1993, legislation did not authorize the enhanced FFP for foster parent training. States were notified of this provision on February 25, 1993 and were instructed to claim such training costs at the 50 percent FFP rate.

## **Illinois**

During the 3-year period January 1, 1992 through December 31, 1994, the State agency claimed \$5,637,221 as training costs at the enhanced FFP rate of 75 percent. The claims were for: (1) foster parent recruitment and (2) indirect costs, which should have been claimed at the allowable FFP rate of 50 percent.

### **Foster Parent Recruitment Costs**

The State agency inappropriately claimed foster parent recruitment costs of \$2,127,689 as training under the title IV-E program. These costs were incurred under contracts with not-for-profit agencies that were administered by the State agency's regional offices. The audit team examined contracts, abstracts, program plans and billing summaries for several of the agencies, which indicated that the primary goal of the program was to expand the number of licensed foster care slots. The contracts were awarded to identify, recruit and assist in the expansion of the Foster Care program. Recruitment services were often indicated on the contractor billing summaries.

Although 75 percent reimbursement was available to States for short-term training expenditures related to current and prospective foster parents, the recruitment

activities furnished under these contracts were not eligible for this higher rate. Because the training components of these contracts could not be identified, the audit team recommended that reimbursement should have been limited to the 50 percent non-training rate. The audit team questioned the difference of \$531,922 (25 percent of \$2,127,689).

## **Indirect Costs**

Training costs claimed by the State agency included indirect costs of \$3,509,532. This amount included \$2,120,368 claimed on behalf of the State agency and \$1,389,164 of costs incurred under contracts it had with three universities that had the largest title IV-E training claims. Because indirect costs were claimed at the FFP rate of 75 percent, Federal reimbursement was overstated by \$877,383 (25 percent of \$3,509,532) as follows:

- **State Agency**

The State agency computed its indirect costs by applying various rates, established through negotiation agreements with HHS, to personal service costs. Because the cost pools used to develop the rates contained costs other than those allowable as defined in 45 CFR 235.64, the indirect costs were not eligible for reimbursement at 75 percent.

During the period January 1, 1992 through September 30, 1994, the State agency claimed indirect costs of \$2,120,368 at the FFP rate of 75 percent. Federal reimbursement was thus overstated by \$530,092 (25 percent of \$2,120,368). Since October 1, 1994, the State agency's indirect costs have been claimed at the correct rate of 50 percent.

- **Universities**

Indirect costs of \$1,389,164 claimed at the rate of 75 percent for the three universities were generally computed by applying indirect cost rates to direct training costs. The rates were calculated using cost pools containing costs of support services from the library, accounting, business operations, administrative computing, word processing and personnel. Under 45 CFR 235.64, these types of costs were not allowable at 75 percent FFP. Because the cost pools used to compute the rates included non-training costs, the indirect costs should have been claimed at 50 percent. The difference in the Federal share was \$347,291 (25 percent of \$1,389,164).

## **Recommendation**

The audit team recommended that the State agency make a financial adjustment of \$5,637,221 (\$1,409,305 Federal share).

## **State Comments and OIG Response**

See Page 4 of Appendix A for State comments and OIG response.

## **Florida**

The Federal share of administrative costs related to title IV-E training activities was calculated by the Florida Department of Health and Rehabilitative Services (DHRS) at the enhanced 75 percent rate, rather than at the appropriate 50 percent rate. The use of the enhanced rate resulted in a \$98,635 overstatement of the Federal share of costs for State Fiscal Year (FY) 1994 and \$74,018 for State FY 1995.

A DHRS official told the audit team that the use of the 75 percent FFP rate for administrative costs was an inadvertent oversight that had been corrected.

## **Recommendation**

Based on ACF's clarification of the administrative cost reimbursement rate issue, the audit team did not recommend a financial adjustment relating to the \$98,635 of administrative costs DHRS overclaimed for State FY 1994. However, the audit team recommended DHRS:

- Refund \$74,018 Federal share, representing 25 percent of \$296,072 in administrative costs claimed at the enhanced rate, rather than at the lesser administrative cost rate.
- Limit claims for the Federal share of future indirect costs associated with title IV-E training activities to the 50 percent rate.

## **State Comments and OIG Response**

See Page 5 of Appendix A for State's concurrence.

## **Oklahoma**

### **Foster Parent Training**

The State claimed \$3,970 of foster parent training at the enhanced rate for the quarter ended September 30, 1993, which was the first quarter of the audit team's review period July 1, 1993 through June 30, 1994.

### **Recommendation**

The audit team recommended that the State:

- Refund \$3,970 (\$993 Federal share) to the title IV-E program for foster parent training claimed at the enhanced FFP rate.
- Identify unallowable FFP for foster parent training claimed for the three quarters prior to the audit period and refund that amount to the title IV-E program.

### **Indirect Costs**

During the review period, the State claimed \$895 of title IV-E indirect contract training costs for the title IV-E program that was computed at the enhanced 75 percent FFP rate, rather than at the correct 50 percent rate. Indirect costs could have been claimed at the 75 percent FFP rate as long as only certain kinds of costs were included in the calculation of the indirect cost rate. However, the contractor included costs other than those specified in 45 CFR 235.64 in developing the rate. For this reason, the State should have claimed these indirect costs at the 50 percent FFP rate.

### **Recommendation**

Because the April 1994 memorandum from the Director of ACF, OFM was written near the end of the audit period, the audit team did not make any recommendations for financial adjustment. However, the audit team recommended that the State limit claims for indirect title IV-E training costs to those activities specifically identified in 45 CFR 235.64.

### **State Comments and OIG Response**

See Page 5 of Appendix A for State comments and OIG response.

## **Missouri**

### **Indirect Costs--Children Services Pool**

Missouri's approved CAP allowed costs to be claimed at 75 percent FFP that were only allowable at 50 percent FFP. During the period of our review, the State included \$14,028,239 of indirect costs in its Children Services cost pool. Of that amount, \$420,866 in indirect costs was allocated to training activities through a Random Moment Time Study (time study) of field workers performing Social Services program activities. The \$420,866 was then reimbursed at the FFP rate of 75 percent. Indirect costs could have been claimed at the 75 percent FFP rate as long as only allowable costs specified in 45 CFR 235.64 were included in the calculation. However, not all of the indirect costs in the pool were eligible for reimbursement at the 75 percent FFP rate. As a result, costs could have been overclaimed by as much as \$105,216.

### **Recommendation**

Because the April 1994 memorandum from the Director of ACF, OFM was written near the end of the audit period, the audit team did not make any recommendation for financial adjustment. However, the audit team recommended that the State limit claims for title IV-E training indirect costs to those activities specifically identified in 45 CFR 235.64.

### **State Comments and OIG Response**

See Page 5 of Appendix A for State's concurrence.

## **New Jersey**

For the period July 1, 1992 through June 30, 1993, the New Jersey Department of Human Services (DHS) claimed indirect costs associated with the title IV-E Foster Care program at the enhanced 75 percent FFP rate, rather than at the lower 50 percent administrative cost rate. The claimed indirect costs included administrative costs generated by the Division for Youth and Family Services (DYFS) within DHS and those applicable to training costs allocated to DYFS through the New Jersey Department of Personnel, Human Resource Development Institute (HRDI) CAPs.

## **Recommendation**

The audit team did not recommend a financial adjustment for indirect costs claimed at the enhanced 75 percent FFP rate because the audit period was prior to the date of ACF's clarification of the indirect cost reimbursement rate. However, in accordance with ACF policy, the audit team recommended that the State claim indirect costs associated with title IV-E training activities at the 50 percent FFP rate.

## **State Comments and OIG Response**

See Page 6 of Appendix A for State's concurrence.

## Training Contract Costs

As summarized in the following table, costs claimed under training contracts with universities included unallowable and unsupported costs of \$1,740,719 (\$1,305,539 Federal share):

STATE	RECOMMENDED ADJUSTMENT	FEDERAL SHARE	% TO TOTAL
Illinois	\$1,740,719	\$1,305,539	100.00%

### Illinois

During the period January 1, 1992 through December 31, 1994, the State agency's staff development office was the Child Welfare Training Institute (CWTI) which planned, coordinated and implemented training programs required at all levels from child care staff to top administrators. To assist in providing these training services, the State agency contracted with State universities and colleges.

The State agency claimed approximately \$13.9 million for training services provided through contractual arrangements with 20 universities and colleges within Illinois. These contractors submitted vouchers to the State agency identifying reimbursable costs, and the State agency then used the vouchers for reimbursing the contractors and for claiming eligible training costs under the title IV-E program.

For the 3-year period ended December 31, 1994, the audit team reviewed contracts with the following three universities that had the largest title IV-E training claims:

- Sangamon State University (SSU)
- Governors State University (GSU)
- Northern Illinois University (NIU)

Costs claimed in the amount of \$7,776,731 by the three universities included unallowable and unsupported amounts totaling \$1,740,719 (\$1,305,539 Federal share). The State agency did not provide adequate guidance and oversight to contractors to ensure that claims for training costs were in accordance with

Federal cost principles. As a result, the claims included unallowable and unsupported costs, as follows:

- **Administrative Fees - \$399,940 (\$299,955 Federal share)**

Administrative fees amounting to \$399,940 for 11 of 12 training contracts with SSU and GSU were inappropriately claimed. At SSU, fees were budgeted for the purpose of recovering its costs for office machine and computer usage, telephones, office supplies, duplicating, postage and other expenses related to contract administration. These administrative expenses were billed as direct costs to the contracts and were also included in administrative overhead reimbursed through indirect cost rates. At GSU, administrative fees were based on rates specified in contract budgets.

Because both universities claimed indirect costs under the contracts, the administrative fee reimbursements resulted in duplications or overrecoveries of costs. State agency officials were not aware that the administrative fees could not be supported by additional costs incurred by the universities.

- **Estimated Costs - \$218,281 (\$163,710 Federal share)**

The SSU and GSU also claimed costs amounting to \$218,281 based on unsupported budget estimates. There were no records available to document any of the estimated costs, and the audit team was unable to make a determination as to their allowability or allocability. The \$218,281 included internal support costs of \$198,281 claimed by SSU based solely on budget estimates and flat fees totaling \$20,000 claimed by GSU under two contracts.

The \$198,281 in internal support costs included:

- **Personnel and Professional Support - \$110,182**

Costs of \$110,182 were based on unsupported daily rates applied to a number of days. Personnel providing these services were not identified, nor were actual salaries used to prepare invoices submitted for each contract. These costs were for clerical and library media support, conferences and publications.

- **Use Charges - \$58,058**

Internal billings of \$58,058 were charged to the training contracts for use of university-owned office machines, equipment and computer software. The costs were based on estimates and monthly rates which could not be

supported. In addition, there were no records to support usage under the training contracts.

- **Other - \$30,041**

Costs of \$30,041 were charged to contracts based on budgets and estimates which were not supported. These costs represented unsupported telecommunication usage, continuing education fees and personal service costs claimed as cost sharing.

The flat fees claimed by GSU were listed in approved budgets to cover administrative-type expenses. The audit team determined the fees totaling \$20,000 were not directly related to any specific costs, nor were they supported.

- **Computer Equipment and Software - \$18,352 (\$13,764 Federal share)**

The SSU included costs of \$18,352 for acquiring computer equipment and software. These purchases were claimed as equipment rental and library media support charges. Because these claims were not identified as equipment in claims submitted to the State agency, the State's approval was not obtained as required by OMB Circular No. A-21.

- **Duplicate Claim - \$10,677 (\$8,008 Federal share)**

The audit team identified a duplicate claim of \$10,677 attributable to weaknesses in GSU's accounting system. The GSU did not prepare claims from accounting records, but rather from invoices submitted by vendors. In one instance, payment had not been received by a vendor on the first invoice it had submitted to the university for payment. Therefore, the vendor submitted the invoice again. Although the invoice was only paid once, GSU claimed the amount twice on reimbursement invoices submitted to the State agency.

- **Indirect Costs - \$1,093,469 (\$820,102 Federal share)**

Indirect costs claimed by SSU, GSU and NIU included \$1,093,469 of unallowable costs, comprised of: (1) unallowable direct costs, (2) subcontractor costs and (3) excessive and unsupported indirect costs as follows:

- (1) The SSU and GSU applied indirect cost rates to total direct costs. The questioned amount of \$256,158 represented indirect costs applicable to previously cited unallowable and unsupported costs.

- (2) The GSU also applied an indirect cost rate of 65.23 percent to \$1,105,013 of costs for five subcontracts which resulted in indirect cost claims totaling \$720,800. Because OMB Circular No. A-21 allowed indirect cost recovery on only \$25,000 of each subcontract, the audit team determined that GSU's indirect cost rate should have been applied to only \$125,000. As a result, indirect costs of \$639,262 were erroneously claimed under the title IV-E program.
- (3) To recover its administrative and indirect costs, NIU generally applied a rate of 20 percent to direct costs. An additional 30 percent rate was applied to these direct costs for reported cost sharing. These rates were not supported by cost determinations or an indirect cost agreement. Although NIU had an indirect cost rate agreement with HHS, the negotiated rates applied to research and were not applicable to costs incurred under contracts with the State agency. Because the audit team acknowledged that NIU incurred indirect costs for which it was entitled to reimbursement, the audit team used 30 percent as a reasonable and equitable indirect cost rate. Accordingly, the audit team questioned indirect costs of \$198,049 which exceeded the 30 percent rate.

## **Recommendation**

The audit team identified total unallowable and unsupported costs of \$1,740,719 (\$1,305,539 Federal share) claimed by the three universities. The audit team attributed the unallowable and unsupported costs to a need for the State agency to provide more guidance and oversight to contractors. The contractors should have been informed of the requirements contained in Federal cost principles. In addition, fiscal monitoring of the contracts and claims should be improved to ensure the accuracy and allowability of charges to the title IV-E program.

Accordingly, the audit team recommended the State agency:

- Make a financial adjustment of \$1,740,719 (\$1,305,539 Federal share) to the title IV-E program.
- Provide sufficient guidance and instructions to contractors to assist them in submitting accurate claims for reimbursement of costs.
- Monitor and review contractor claims to ensure that the costs are accurate, allowable and allocable under the title IV-E program.

## **State Comments and OIG Response**

See Page 6 of Appendix A for State's concurrence.

### **Third Party In-Kind Contributions**

Contrary to State and Federal regulations, third party in-kind contributions were claimed as matching costs under title IV-E. Consequently, \$997,850 (\$672,999 Federal share) was improperly claimed to the Federal Government, which is summarized in the following table:

<b>STATE</b>	<b>RECOMMEND ED ADJUSTMENT</b>	<b>FEDERAL SHARE</b>	<b>% TO TOTAL</b>
<b>Florida</b>	<b>\$626,071</b>	<b>\$469,554</b>	<b>62.74%</b>
<b>California</b>	<b>\$371,779</b>	<b>\$203,445</b>	<b>37.26%</b>
<b>TOTAL</b>	<b>\$997,850</b>	<b>\$672,999</b>	<b>100.00%</b>

On October 22, 1984, ACF issued Policy Interpretation Question (PIQ)-84-6, which stated, "Third party in-kind contributions are not allowable for replacing the State's share for Federal matching purposes under the title IV-E Foster Care and Adoption Assistance Program...."

The PIQ was issued to reaffirm longstanding Federal policy which has consistently excluded third party in-kind contributions from qualifying as the State share under Federal matching requirements for the Foster Care program.

Federal regulations limited match-requirement costs to allowable costs, and Federal cost principles excluded State-prohibited costs from allowable costs. Specifically, 45 CFR 74.52 stated that a cost-sharing or matching requirement may be satisfied by allowable costs incurred under the grant by the grantee or subgrantee. In addition, Paragraph C.1. of Attachment 1 to OMB Circular No. A-87 defined allowable costs under a grant program and stated, "To be allowable under a grant program, costs must...be authorized or not prohibited under State or local laws or regulations."

### **Florida**

The Florida DHRS reported title IV-E expenditures which included \$626,071 of administrative costs that exceeded the maximum amount allowed under State law

during State FYs 1994 and 1995. In the opinion of DHRS officials, these costs could have been used to meet Florida's Federal matching requirements. However, Federal cost principles stated that costs prohibited under State law were not allowable under a grant program.

Florida statute 216.346 limited administrative costs in contracts between State agencies to 5 percent. Specifically:

"In any contract between state agencies, including any contract involving the State University System or the State Community College System, the agency receiving the contract or grant moneys shall charge no more than 5 percent of the total cost of the contract or grant for overhead or indirect costs or any other costs not required for the payment of direct costs."

Beginning in State FY 1994, DHRS claimed administrative costs in excess of the 5 percent cap that State law imposed on training contracts with three State universities. The universities limited the administrative costs they reported to DHRS to 5 percent of direct costs incurred under the contracts, and the DHRS, in turn, reported the allowable 5 percent of administrative costs incurred by the universities to the Federal Government. However, DHRS also reported some of the costs the universities were prohibited by State law from claiming. The DHRS reported a portion of the difference between the amounts the universities claimed for reimbursement and the amounts that would have been allowed under the universities' established indirect cost rates. As a result, DHRS claimed title IV-E expenditures that included \$626,071 of administrative costs that exceeded the maximum amount allowed under State law.

Using the rationale that a grant to a State agency is a grant to the State as an entity, DHRS believed the additional cost claimed could be used to meet the State's 25 percent matching requirement under the grants. Accordingly, DHRS increased total expenditures reported by the universities by one third. For example, if the universities reported total expenditures of \$75 to DHRS, it then reported \$100 [ $\$75 + (\$75/3)$ ] to the Federal Government as expenditures. Using this methodology resulted in the Federal Government essentially funding 100 percent of allowable costs incurred under the contracts. An official advised the audit team that DHRS has discontinued this practice.

Based on Federal regulations and cost principles, the audit team concluded that the \$626,071 reported by DHRS as expenditures did not meet the definition of allowable costs under State or Federal criteria and was therefore unallowable for Federal reimbursement.

## **Recommendation**

The audit team recommended that DHRS refund \$626,071 (\$469,554 Federal share) of unallowable match claimed to the Federal Government.

## **State Comments and OIG Response**

See Page 6 of Appendix A for State's concurrence.

## **California**

The State claimed third party in-kind contributions as matching costs under the Federal Foster Care program which were specifically defined by Federal policy as unallowable for meeting the State's cost sharing requirements for the program. During the 3-year period April 1, 1992 through March 31, 1995, the State claimed \$1,705,469 (\$929,405 Federal share) of third party in-kind contributions for FFP. The contributions were claimed under two of the contracts included on the audit:

- the contract between LA County and California State University, Long Beach (CSULB); and
- the contract between the State and UC Berkeley.

The audit team determined that, although the State obtained approval to claim the third party contribution, \$371,779 (\$203,445 Federal share) of the amount claimed was unallowable because of errors and other reasons.

## **LA County Contract With CSULB**

### **Provisions for In-Kind Contributions**

Effective September 17, 1991, LA County contracted with CSULB to provide training services. The university provided some of the required training directly with its own faculty and subcontracted with the University of Southern California (USC) to perform additional training.

Under the contract, both universities were expected to contribute a 25 percent match of the costs of the training. The intention was that the State would use contributions made by the universities to meet its matching requirements for the Federal Foster Care program. The Federal Government would reimburse the State for 75 percent of allowable training costs for the program, and the State was required to provide matching funds for the remaining 25 percent.

The contributions made directly by the State university were considered acceptable for matching purposes because State funds were used. However, because it was a private university, USC was subject to the Federal policy prohibiting the use of third party contributions to meet the State's matching requirement for the Federal Foster Care program.

The LA County was aware of the Federal restrictions in arranging for a private university to provide the State's matching costs. In a letter dated September 17, 1991, the director of the Department of Children's Services (DCS) to the LA County Board of Supervisors requested approval of the Inter-University Training Consortium Agreement which was the contract between LA County and CSULB. This letter stated specifically that:

"In a separate Subcontract Agreement between CSULB and the University of Southern California (USC), USC will also provide these services to DCS. The subcontract arrangements enables USC as a private university to meet federal matching requirements for title IV-E through CSULB. Federal and state regulations do not permit a private university to make an in-kind match with a public child welfare agency.

\* \* \* \* \*

...Each university is providing a 25% match above the contract amount."

Previously, on September 4 and 10, 1991, USC respectively requested and received written concurrence from the Region IX office of ACF that its third party in-kind contributions could be used to meet the State's matching share. However, there was nothing in the correspondence between USC and ACF indicating that PIQ-84-6, which contained no provisions allowing contributions through the use of subcontracts, was considered in approving USC's request.

### **Costs Questioned**

The audit team determined that \$235,103 (\$126,264 Federal share) of the \$1,324,052 claimed for third party in-kind contributions related to the subcontract with USC was unallowable because of errors and other reasons. The unallowable costs were previously identified by the LA County Auditor in a prior audit of CSULB's subcontract with USC.

In response to the audit by the LA County Auditor, USC agreed to provide additional training for LA County in 1995 at no additional costs, in lieu of repaying the unallowable amounts claimed and received. The audit team accepted a value for the additional training as an offset against the unallowable costs.

The unallowable costs and the credit for additional training provided by USC were as follows:

- **Use of Inappropriate Indirect Cost Rate**

The USC had several indirect cost rates that it negotiated with HHS, DCA. For the subcontract it had with CSULB, USC should have used the rate applicable for instruction. However, for the first two years of the subcontract, the higher rate for applied research was used. This resulted in an overclaim of \$58,593 for FY 1992 and \$186,625 for FY 1993 totaling \$245,218 (\$131,696 Federal share). Beginning with the third year of the subcontract, USC appropriately used the indirect cost rate for instruction after being advised of the error by the LA County Auditor.

- **Pre-agreement and Other Unallowable Costs**

The LA County Auditor questioned \$38,480 consisting of \$38,409 of pre-agreement costs and \$71 of costs unrelated to the contract (\$20,666 Federal share). The questioned pre-agreement costs consisted of claimed costs incurred prior to the signing of the contract. The costs were not approved by LA County as required by OMB Circular No. A-21.

- **Indirect Costs on Equipment and Space Rental**

The LA County Auditor questioned \$31,216 (\$16,765 Federal share) because USC inappropriately applied its indirect cost rate to equipment and space rental costs incurred on the project. Under the principles of OMB Circular No. A-21, an indirect cost rate should not have been applied to equipment and space rental costs.

- **Credit for Additional Training Provided**

In response to the audit by the LA County Auditor, USC proposed to provide additional training to the county in 1995 at no cost to repay the unallowable costs. The value of the additional training USC provided was determined by USC to have been \$324,205. However, the audit team accepted a value of \$79,811, or \$244,394 less.

The value of the additional training USC provided was estimated by USC based on the published price of a course offered by an outside training firm—not the costs incurred by USC. The USC officials advised the audit team that they did not accumulate the costs of providing the training.

In October 1995 and March 1996, USC submitted two invoices to LA County for training 1,099 attendees at \$295 per person totaling \$324,205. The price was taken from a brochure published by a private firm for a 1-day course entitled, "Understanding and Analyzing Financial Statements for Attorneys." This specific course was not actually provided to the attendees, but the published price per person was used by USC to establish an estimate of the cost of the training it provided.

The audit team contacted the company whose course was used by USC as the basis for its \$295 per person estimate of training costs. According to the company, lower fees were available for providing in-house training programs. A company official quoted a price of \$100 per student up to 45 students and \$50 per additional student if the organization receiving the training provided the facilities. The audit team then contacted the USC conference center where the training was held and obtained the charge for use of the facility including refreshments and parking.

The audit team determined that the number of persons who actually attended the training was 929, rather than the 1,099 reflected on USC's invoices. Based on the actual number of persons who attended the training, the audit team determined the value of the training using the prices quoted by the same company USC used for its estimate and the prices quoted by the USC conference center. The audit team allowed a credit of \$79,811 (\$42,863 Federal share) for the value of the additional training provided by USC at no cost as an offset against the costs questioned.

### **Balance of Third Party In-Kind Contributions Set Aside--CSULB**

Under the LA County contract with CSULB, the audit team set aside the balance of \$1,088,949 (\$1,324,052 claimed less \$235,103 questioned) for resolution by ACF because of the inconsistency between the Region IX ACF approval and national ACF policy which did not allow third party contributions for meeting the State's matching requirements. The Federal share of the \$1,088,949 was \$584,828.

### **State Contract with UC Berkeley**

#### **Provisions for In-Kind Contributions**

The State contracted with UC Berkeley to provide training services. The UC Berkeley provided some of the required training directly with its own faculty and subcontracted with two private universities, USC and Loma Linda University (LLU), and eight State universities.

The arrangement was the same as with the contract between LA County and CSULB in that the universities were expected to contribute a 25 percent match of the costs of the training. The intention was that the State would use the contributions made by the universities to meet its matching requirements for the Federal Foster Care program. The UC Berkeley officials cited the September 1991 letter from ACF as their and the State's justification for using in-kind contributions from the private universities as the State's matching costs. As stated previously, there were no provisions in the Federal policy which would have made third party in-kind contributions allowable by using a subcontract.

### **Costs Questioned**

The State claimed \$381,417 of third party in-kind contributions from USC and LLU as State matching costs under the UC Berkeley contract during the period October 1, 1993 through March 31, 1995. Of this amount, the audit team determined that \$136,676 (\$77,181 Federal share) was unallowable because USC inappropriately applied an indirect cost rate to student stipends.

The USC inappropriately applied its 35 percent indirect cost rate to \$403,875 in student stipends that were claimed as direct costs under the contract. Although the amount derived from this calculation was \$141,356, USC limited the amount claimed to \$136,676 because this was the balance needed to arrive at the total agreed-upon matching amount of 25 percent of the costs of training.

The USC appropriately excluded stipends from the direct cost base when it developed its indirect cost rate. Such an exclusion was required by OMB Circular No. A-21. Therefore, USC should not have applied the indirect cost rate to stipends in determining the indirect costs charged to the contract.

### **Balance of Third Party In-Kind Contributions Set Aside--UC Berkeley**

For the State contract with UC Berkeley, the audit team set aside the balance of \$244,741 (\$381,417 minus \$136,676) for resolution between ACF and the State because of the inconsistency between the Region IX ACF approval and national ACF policy which did not allow third party contributions for meeting the State's matching requirements. The Federal share of the \$244,741 was \$141,132.

### **Costs claimed in Subsequent Periods**

The audit included costs claimed by the State through the period ended March 31, 1995. The review indicated that the State continued to claim the above types of unallowable costs in periods subsequent to the audit period.

## **Recommendation**

The audit team recommended that the State:

- Refund to the Federal Government \$203,445 (\$126,264+\$77,181), the Federal share of \$371,779 (\$235,103+\$136,676), and make adjustments for any unallowable costs claimed subsequent to March 31, 1995.
- Coordinate with ACF on the resolution of \$1,333,690 (\$725,960 Federal share) of costs that were set aside.

## **State Comments and OIG Response**

See Page 7 of Appendix A for State comments and OIG response.

**Supporting Documentation for Reported Expenditures  
Allocation of Office Space Costs  
Dependent Care Grant**

In Florida, the State's accounting records reflected \$148,627 less in training costs than the amount which was claimed to the Federal Government. In Illinois, lease costs of \$36,450 were inadvertently allocated to the title IV-E program. In Oklahoma, \$708 of a dependent care grant was incorrectly charged to titles IV-E and XIX training. In total, the Federal Government was overbilled by \$139,276 as summarized in the following table:

<b>STATE</b>	<b>RECOMMENDED ADJUSTMENT</b>	<b>FEDERAL SHARE</b>	<b>% TO TOTAL</b>
<b>Florida</b>	<b>\$148,627</b>	<b>\$111,470</b>	<b>80.00%</b>
<b>Illinois</b>	<b>\$36,450</b>	<b>\$27,337</b>	<b>19.62%</b>
<b>Oklahoma</b>	<b>\$708</b>	<b>\$469</b>	<b>0.38%</b>
<b>TOTAL</b>	<b>\$185,785</b>	<b>\$139,276</b>	<b>100.00%</b>

**Florida**

Costs reported in DHRS' accounting records were \$148,627 less than costs claimed to the Federal Government. The audit team believed costs reported to the Federal Government exceeded recorded costs because of flaws in the computerized grant reporting system that had been recently implemented by DHRS.

The DHRS was unable to provide supporting documentation for \$148,627 (\$111,470 Federal share) of its reported title IV-E training expenditures for State FY 1995. The audit team attributed this problem to flaws in DHRS' newly implemented computerized grant reporting system. Federal regulations at 45 CFR 74.61 (b) required the maintenance of adequate documentation to support charges to grant programs:

"...Records which identify adequately the source and application of funds for grant or sub-grant supported activities shall be maintained...."

Beginning in State FY 1995, DHRS initiated a computerized grant reporting system which calculated expenditures chargeable to specific programs. The system used State Automated Management Accounting System (SAMAS) cost and allocation data and adjustments furnished by DHRS to formulate a report identifying expenditures chargeable to title IV-E training activities. Then, the system applied the FFP rate of 75 percent to data in the first report to formulate a second report identifying the Federal share of program expenditures.

The audit team's examination of the DHRS-generated reports showed that the amount DHRS claimed as title IV-E training expenditures was \$148,627 more than that which was shown in the reports. The DHRS was not able to provide supporting documentation for the \$148,627 claimed.

The audit team attributed the lack of documentation to flaws in DHRS' newly implemented computerized grant reporting system. The audit team's limited review of the system showed that for the first report, the extraction of SAMAS cost data and the application of allocation percentages were accurate. Therefore, the audit team concluded that the problem existed either in the DHRS adjustments to title IV-E training expenditures contained in the first report or the computerized grant reporting system's application of the FFP percentages to the expenditures for the second report.

## **Recommendation**

The audit team recommended DHRS:

- Make a financial adjustment of \$148,627 (\$111,470 Federal share) for costs reported in excess of costs recorded during State FY 1995.
- Identify and correct the flaws in its new computerized grant reporting system.

## **State Comments and OIG Response**

See Page 9 of Appendix A for State's concurrence.

## **Illinois**

The lease costs for CWTI's office space were inadvertently allocated 100 percent to the title IV-E program. The State agency had determined that 30 percent of the activity at CWTI was not related to foster care. Therefore, the lease costs should have been allocated at 70 percent. In preparing the claims for 1993 and

1994, lease costs of \$121,500 were charged to title IV-E. This resulted in an overclaim of \$36,450 (30 percent of \$121,500).

### **Recommendation**

The audit team recommended that the State agency make a financial adjustment of \$36,450 (\$27,337 Federal share).

### **State Comments and OIG Response**

See Page 9 of Appendix A for State's concurrence.

### **Oklahoma**

Dependent care grant costs for the period July 1, 1993 through June 30, 1994 totaled \$477,595, of which \$708 (\$469 Federal share) was incorrectly charged to titles IV-E and XIX training. As such, titles IV-E and XIX training costs were overstated by \$445 (\$334 Federal share) and \$263 (\$135 Federal share), respectively.

### **Recommendation**

- Refund \$708 (\$469 Federal share), which consists of \$445 (\$334 Federal share) and \$263 (\$135 Federal share) for the costs of a dependent care grant that were improperly charged to the title IV-E and XIX programs, respectively.
- Identify and refund unallowable FFP for costs of the dependent care grant that were improperly charged to Federal programs during the time prior to and after the audit period.

### **State Comments and OIG Response**

See Page 10 of Appendix A for State comments and OIG response.

**Revenue as an Applicable Credit - Training Fees**  
**Missouri's CAP - Sampling Methodology**  
**Indirect Cost Rates**

In New Jersey, training costs were not offset by \$300,000 in revenue earned from training activities. In Missouri, the State's cost allocation plan (CAP) allocated training costs only to Foster Care programs even though other programs such as Emergency Assistance benefited. In Illinois, indirect cost rates for two universities were not reviewed by the State agency to ensure that the rates were developed in accordance with Federal cost principles. As summarized in the table below, financial adjustments were not recommended:

<b>STATE</b>	<b>RECOMMENDED ADJUSTMENT</b>	<b>FEDERAL SHARE</b>	<b>% TO TOTAL</b>
<b>New Jersey</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00%</b>
<b>Missouri</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00%</b>
<b>Illinois</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00%</b>
<b>TOTAL</b>	<b>\$0</b>	<b>\$0</b>	<b>0.00%</b>

**New Jersey**

Training costs allocated to DHS by HRDI were overstated because prior to allocation, the expenses were not offset by \$300,000 in training fee revenue. Revenue received from training activities should have been used to offset costs, unless according to 45 CFR 74.42, the Federal granting agency had permitted the State to use it either (a) to meet the cost sharing requirements of the program or (b) for costs which were in addition to the allowable costs of the program. The ACF had not approved or permitted HRDI to use training fee revenue to meet cost sharing requirements or for costs which were in addition to allowable costs of the program.

Moreover, training fee revenue met the definition of an applicable credit, as set forth in OMB Circular No. A-87, Attachment A, Paragraph C.3.a., which referred to applicable credits as those receipts or reduction of expenditure-type

transactions which offset or reduce expense items allocable to grants as direct or indirect costs.

If HRDI had properly applied the \$300,000 in training fee revenue as a credit against training costs, DYFS and the other main divisions within DHS would have been allocated approximately \$67,701 less of HRDI expenditures. This would have resulted in an approximate reduction of \$17,901 Federal share, or .8 percent, from the \$2,197,821 FFP claimed by DHS during the period July 1, 1992 through June 30, 1993.

During an exit conference held on October 26, 1995, the audit team discussed this issue with DHS and HRDI officials. They informed the audit team that the \$300,000 in revenue was not applied as a credit against HRDI training costs prior to the allocation of costs to DHS because of an oversight during the development of HRDI's CAPs. The DHS and HRDI officials also stated that during FY 1995, DHS omitted training costs in excess of \$67,701 from the computation of amounts eligible for FFP, which the audit team confirmed. Therefore, the audit team did not recommend a financial adjustment. In closing, DHS and HRDI officials agreed to prospectively apply all revenue received from training activities as a credit to training costs before allocating costs to all benefiting departments and/or divisions within departments.

### **Recommendation**

Although the monetary effect was not significant in relation to the amount of FFP claimed, HRDI's cost allocation methodology should be corrected prospectively to ensure that future training costs allocated to DHS reflect actual HRDI expenses. The audit team recommended that for future periods HRDI adhere to existing Federal regulations and offset costs by all revenue received from training activities prior to allocating costs to benefiting cost objectives.

### **State Comments and OIG Response**

See Page 10 of Appendix A for State's concurrence.

### **Missouri**

Missouri's approved CAP included a sampling methodology that allocated costs only to the Foster Care programs, when in fact the costs benefited several other programs. As part of its approved CAP, the State conducted a time study of field workers performing Social Services program activities. The study was used to determine the percentage of time spent on various activities and to distribute aggregate costs to various activities. The CAP defined the Sampling Plan used to

allocate expenses for Social Services Program activities and included 12 different codes for worker activity.

Worker activities included programs other than foster care. Further, child welfare was generally defined as "...the broad range of preventive and protective services designed to prevent child abuse and neglect."

The instructions for using Code 10 Child Welfare Training stated:

"This code should be used when the worker is engaged in or preparing for training, either as a trainer of other divisional staff or as a trainee, and the subject of the training falls within the CHILD WELFARE General Definition. Also included would be preparing for training and training of alternate care providers and adoptive parents."

The State charged only Code 10 for all training time, regardless of the program. However, not all benefiting programs were allocated the costs from this code. As a result of this methodology, other benefiting programs such as Emergency Assistance did not receive an allocation of training costs.

During the review period, these training costs were claimed under an approved CAP. Consequently, the audit team did not identify or quantify any potential excess FFP received by the State. However, it was the audit team's opinion that the CAP should be modified to allocate training activities to all benefiting programs.

## **Recommendation**

The audit team recommended the State modify its CAP to allocate training activities to all benefiting programs.

## **State Comments and OIG Response**

See Page 10 of Appendix A for State comments and OIG response.

## **Illinois**

During the review at the universities, another condition was noted which needed to be addressed by the State agency. The indirect cost rates for two universities were not reviewed by the State agency to ensure that the rates were developed in accordance with Federal cost principles. The propriety of the universities' indirect cost rates was not included in the scope of the audit team's review.

## **State Comments and OIG Response**

See Page 11 of Appendix A for State comments and OIG response.

## SUMMARY AND RECOMMENDATIONS

Improper practices for identifying and charging administrative costs existed in all participating States, which resulted in significant recommended financial adjustments amounting to \$58,222,453 (\$36,866,400 Federal share). Because these improper practices were found in all participating States, we are alerting ACF and the Health Care Financing Administration to these conditions.

The Assistant Secretary for Management and Budget (ASMB) has been assigned the responsibility to negotiate all public assistance CAPs through which all administrative costs (direct and indirect) are normally charged to Federal programs. This responsibility also includes resolution of all government-wide accounting issues that impact public assistance programs, such as those identified in this report. Therefore, we recommend that the ASMB advise other entities involved in administering training contracts of the conditions found in this review. We also recommend that the ASMB coordinate efforts to periodically review future training expenditures claimed by the States to ensure that they continue to adhere to regulations governing the allocation and claiming of training costs.

### The ASMB's Comments

In responding to our draft audit report, ASMB stated it was in substantial agreement with our findings and offered comments and corrective actions it anticipated taking in the future. Specifically, ASMB indicated it would:

- Defer to ACF for a final decision as to the propriety of states' applying inappropriate FFP rates to the ACF title IV-E program.
- Support questioning costs where States failed to adequately allocate training costs to all benefiting programs.
- Pursue with ACF the questioned costs in California concerning in-kind matching and ask ACF to address the apparent conflict in policy between the Regional and Headquarters Offices.
- Support the findings concerning the claiming of indirect costs by the universities in California. The ASMB agreed that California should not have reimbursed indirect costs where a rate was applied to flow-through funds, capital expenditures and stipends.
- Support a monetary finding for the training costs that were overcharged to child welfare programs in Missouri.

The ASMB also stated it fully concurred with our recommendations and indicated it would take appropriate action to not only notify operating agencies of the findings in the report but also coordinate efforts to periodically review future training expenditures.

The full text of ASMB's comments is contained in Appendix B to this report.

## STATES' COMMENTS & OFFICE OF INSPECTOR GENERAL RESPONSES

### Allocation of Training Costs to Benefiting Programs

#### New York

##### State Comments and Office of Inspector General (OIG) Response

As agreed with the Division of Cost Allocation (DCA), we did not discuss the results of our review (CIN: A-02-96-02000) in detail with New York State Department of Social Services representatives, nor did we provide them with a draft copy of the report for comment.

#### Illinois

##### State Comments

In a written response dated June 11, 1996, the Illinois Department of Children and Family Services (State agency) concurred that, based on Departmental Appeals Board (DAB) Decision No. 1530, an allocation factor should have been applied to joint training costs to distribute them to all benefiting programs. It also concurred with our recommendation to develop and implement a cost allocation plan (CAP) for distributing future training costs. The State agency, however, did not agree that the financial adjustment should be retroactive to January 1, 1992, the beginning of the audit period, because DCA did not disapprove its CAP until December 21, 1992. In addition, the State agency listed additional adjustments that should be considered in the calculation of the dollar amount of the recommended audit adjustment.

The State agency noted that the Administration for Children and Families (ACF) has issued a disallowance letter, based essentially on the DAB decision, for approximately \$12 million covering the extended period April 1, 1989 through June 30, 1995. The State appealed the ACF disallowance, which included amounts recommended for financial adjustment for this issue, based primarily on the State's disagreement over the effective date that the costs were required to be allocated to all benefiting programs.

In a subsequent letter dated June 24, 1996, the State agency provided a schedule showing its calculation of eligible and ineligible training costs which it reallocated based on the title IV-E

eligibility rates in effect during the audit period. It determined that the Federal share of the recommended financial adjustment should have been \$5,812,360.

## OIG Response

Based on the additional information provided by the State agency, the audit team agreed that the proper adjustment should have been \$5,812,360 based on the audit period January 1, 1992 through December 31, 1994. The effective date is an issue that will be resolved in the State agency's appeal of ACF's disallowance letter.

## California

### State Comments

The State did not concur with the audit team's recommendations. In the State's May 24, 1996 written response to the draft audit report, the State agreed that, for training contracts for which special funding approval was not obtained, it will ensure that all foster care training contract costs are allocated to both the Federal and State Foster Care programs. However, the State did not concur with the recommended refund of \$3,005,312 on the basis that ACF approval for funding the contract with the University of California at Berkeley (UC Berkeley) allowed for the costs to be directly charged to the Federal Foster Care program.

In support of its position, the State cited a December 24, 1992 letter from a Region IX ACF official which stated that the application for ACF approval of the California Social Work Education Center (CALSWEC) project was in compliance with Federal laws and policies related to administrative and personnel costs, indirect cost rates, matching funds and cost allocation formulas. The State also cited the following provisions contained in the ACF letter:

"The additional budget justification for the IV-E staff is very comprehensive and the budget narrative has provided appropriate linkage to the Title IV-E program. The competency-based child welfare curriculum was also exclusively Title IV-E related."

According to the State, the CALSWEC project application clearly expressed the State's intent to directly charge the contract costs to the title IV-E program. The State referred to a section of the contract titled "Fiscal Structure," which specified, "The program will be supported using maximum federal reimbursement (75 percent) under title IV-E of the Social Security Act and a (25 percent) local match."

The State's response also cited a letter it had sent to ACF dated November 12, 1992. The State maintained that the letter showed that all parties made every effort to ensure that the fiscal integrity of the contract was preserved.

## **OIG Response**

Although the December 24, 1992 approval letter from ACF stated that the application was in compliance with Federal laws and policies, it did not contain a waiver of the specific Office of Management and Budget (OMB) and ACF requirements cited in the report which require costs to be allocated to benefiting programs. In addition, the letter did not address the State's original June 19, 1992 request to waive the Federal policy which required the allocation of training costs between the Federal and State Foster Care programs. Further, there was no evidence that ACF had approved the requested waiver.

Regarding the Fiscal Structure provision of the application, the maximum Federal reimbursement of 75 percent relates to the Federal financial participation (FFP) rate which is standard for Federal Foster Care program training. The provision does not address whether costs are going to be directly charged to one program or allocated to benefiting programs. In the audit team's review of the contract and related correspondence and other documentation, nothing was found to address whether costs were to be directly charged or allocated on some basis.

The audit team agreed that the budget narrative for the contract provided appropriate linkage to the title IV-E program. However, the persons who received the training provided services to persons working on both the Federal and State Foster Care programs. As such, the training costs should have been allocated to both programs in accordance with Federal ACF policy, OMB Circular No. A-87, the State's CAP and related instructions to the counties.

With respect to the November 12, 1992 letter referred to by the State, there was nothing to support the State's contention that costs under this contract were to be charged only to the Federal Foster Care program.

## **Missouri**

### **State Comments**

The State believed that the title IV-E program required it to train staff before cases were assigned and irrespective of whether children were eligible for title IV-E. In reference to direct costs of Foster Parent Training and IV-E Education Leave, the State contended:

"We believe that the OIG is taking an unnecessarily narrow interpretation of federal law. ACF, since the inception of these activities, has taken a broader interpretation of these costs and the claiming procedures."

Therefore, the State did not feel that the \$217,408 should be refunded.

## **OIG Response**

The audit team found nothing in the State's response that would lead it to believe that the title IV-E program was the sole beneficiary of the training. Therefore, training costs should have been allocated to a particular cost objective to the extent of the benefits received by such objective. Not only was this a requirement of OMB Circular No. A-87, it was an ACF policy directive and was supported by DAB Decision No. 1530 dated August 3, 1995.

## **Oklahoma**

### **State Comments and OIG Response**

State officials concurred with the OIG auditors' findings and recommendations. These officials reported that they made appropriate adjustments, including those adjustments applicable to periods outside the scope of the review. All adjustments were included on the Quarterly Expenditure Reports filed for the March 1996 quarter.

### **Federal Share of Title IV-E Training Activities and Administrative Costs**

## **Illinois**

### **State Comments**

In a letter dated January 19, 1996, the State agency did not concur with the financial adjustment of \$3,509,532 (\$877,383 Federal share) which represented indirect costs claimed on behalf of the State agency and the three universities. The State agency was evaluating DAB Decision Nos. 1422 and 1530 regarding the propriety of claiming indirect costs at 75 percent. It planned to resolve this issue with ACF based on interpretations and applicability of the prior DAB decisions.

In a letter dated February 8, 1996, the State agency agreed with a financial adjustment in the amount of \$2,127,689 (\$531,922 Federal share) for foster parent recruitment costs claimed at the 75 percent FFP rate.

## **OIG Response**

The audit team advised the State agency that its working papers were available if needed to assist in resolving the issues.

## **Florida**

### **State Comments**

The Department of Health and Rehabilitative (DHRS) concurred with the recommendations, and officials said that this finding was a result of an oversight that occurred because administrative costs were not separated from direct costs. The DHRS stated that direct and indirect costs were separated when OIG auditors notified it of the problem.

## **Oklahoma**

### **State Comments and OIG Response**

State officials concurred with the OIG auditors' findings and recommendations. These officials reported that they made appropriate adjustments, including those adjustments applicable to periods outside the scope of the review. All adjustments were included on the Quarterly Expenditure Reports filed for the March 1996 quarter.

## **Missouri**

### **State Comments**

The State offered the following comments concerning indirect costs related to title IV-E training:

"Although no recommendation was made regarding indirect costs chargeable to training, we assure you that we are operating in accordance with the April 1994 correspondence you referenced in your draft report. However, we feel that ACF unduly limited the amount of 'costs' that can be claimed at the enhanced rate. OMB Circular A-87, in Attachment A, Section D.(1), identifies total costs of federal awards as 'comprised of the allowable direct

cost of the program, plus its allocable portion of indirect costs, less applicable credits.'"

## **New Jersey**

### **State Comments**

The Department of Human Services (DHS) stated that it needed further clarification as to what constituted administrative costs claimable at 50 percent and which costs were reimbursable at the enhanced rate of 75 percent. The DHS indicated that it will contact ACF to discuss this issue in greater detail and then take appropriate action.

#### **Training Contract Costs**

## **Illinois**

### **State Comments**

In a letter dated January 19, 1996, the State agency concurred with the recommended financial adjustment of \$1,740,719 and stated that an adjustment would be made in a claim subsequent to issuance of the final audit report. The State agency will also distribute pertinent regulations to all training contractors and implement a review system to ensure that costs claimed are accurate and allowable.

#### **Third Party In-Kind Contributions**

## **Florida**

### **State Comments**

The DHRS concurred with the recommendation. According to DHRS, the questionable claims were stopped when OIG auditors brought the matter to DHRS' attention.

## **California**

### **State Comments**

The State disagreed with the recommendation for a refund, which included \$126,264 for the Los Angeles (LA) County contract with the California State University, Long Beach (CSULB) and the \$77,181 for the state contract with UC Berkeley:

#### **Credit for Additional Training**

The state agreed with our determination of unallowable costs as CSULB. However, it maintained that the value of the additional training provided by the University of Southern California (USC) more than offset the questioned costs and disagreed with our Federal share valuation of \$42,863 that was credited against questioned costs. The State commented that the training was a specially designed legal class presented by highly credentialed faculty that was provided by USC at no cost to LA County.

The State included information provided by LA County in its response, which also contended that the OIG determination of the credit was unreasonably low for this class because it only considered the lower priced of two example classes that USC claimed it used to establish a price for the class it conducted. The State asserted that the LA County Auditor's analysis of the value of in-kind training and a comparison to two example classes supported the \$295 price per student.

#### **Indirect Costs Applied to Student Stipends**

The State did not agree to refund the remaining \$77,181 related to indirect costs applied to student stipends under the State contract with UC Berkeley. The State included input from USC, which stated that students participating in this training program were identical to students participating in USC's graduate assistant program, which employed research assistants. In both instances, the students were considered to have been paid workers by USC. The USC contended that student employee compensation, like any other compensation, was included in the direct cost base and was consistent with USC's indirect cost agreement and the way in the Public Health Service (PHS) regulations treated stipends awarded under training grants.

#### **Costs Set Aside for ACF Resolution**

The State agreed to coordinate with ACF on the resolution of \$725,960 Federal share of set aside costs related to unallowable third party in-kind contributions.

## **OIG Response**

### **Credit for Additional Training**

Although the State contended that the valuation of the credit given for the training provided by USC was unreasonably low because the audit team considered only one of two example classes used to estimate comparable costs, the State did not provide support that more than one class was used. In the audit team's determination of comparable value, it used the same class and the same outside training firm cited by USC in its estimate of the value of training. The difference resulted from the audit team's determination of the lower cost available for providing in-house training for large numbers of attendees per session.

The audit team evaluated the analysis made by the LA County Auditor and found that the analysis was not adequate to support the \$295 fee charged by USC. The audit team found that the analysis (1) did not consider the savings available from large class sessions, (2) was based on irrelevant cost information pertaining to training provided in a prior period, and (3) overstated the value of the USC Convention Center where the training was held.

After consideration of the information provided in the State's response, the audit team considered its estimate of the value of the training was appropriate and offset this amount against the unallowable costs claimed.

### **Indirect Costs Applied to Student Stipends**

The stipend amounts provided under the CALSWEC contract to students were for living and other expenses so they could complete a specific masters program. The payments made were fixed amounts and did not represent compensation directly related to the amount of work performed.

Although the State commented that stipends were included in the direct cost base, the audit team found that stipends were not included in the direct cost base used to develop USC's indirect cost rate. In addition, the budgets for all 10 participating schools, including USC, contained in the FY 1994 CALSWEC contract amendment with UC Berkeley specifically stated that indirect costs would not be applied to stipends.

In addition, the PHS regulations cited by the State were not relevant to this finding as the costs were not claimed under a PHS grant. Further, those regulations did not support the State's position on this issue in that they prohibit paying indirect costs on fellowships or similar awards where PHS funding was in the form of fixed amounts.

### **Costs Set Aside for ACF Resolution**

Subsequent to issuance of the draft audit report, the audit team found instructions the State issued to counties on July 10, 1991, which was prior to LA County's issuance of the training contract to CSULB in September 1991. These show that the State and LA County were fully aware that third party in-kind contributions were unallowable. Specifically, the instructions stated, "A private IHF (institution of higher learning) is not permitted to contribute the CWD's (county welfare department's) share of costs:..." (parenthetical definitions of acronyms added).

**Supporting Documentation for Reported  
Expenditures  
Allocation of Office Space Costs  
Dependent Care Grant**

## **Florida**

### **State Comments**

The DHRS concurred with the recommendations. The DHRS planned to perform additional research to identify the apparent inconsistency in identifying costs that were reported in its computerized grant reporting system.

## **Illinois**

### **State Comments**

In a letter dated January 19, 1996, the State agency concurred with the recommended financial adjustment of \$36,450.

## Oklahoma

### State Comments and OIG Response

State officials concurred with the OIG auditors' findings and recommendations.

**Revenue as an Applicable Credit - Training Fees**  
**Missouri's CAP - Sampling Methodology**  
**Indirect Cost Rates**

## New Jersey

### State Comments

The DHS and Human Resource Development Institute (HRDI) both agreed that the revenues generated by HRDI from outside sources should be offset against applicable HRDI costs.

## Missouri

### State Comments

The State agreed that the sampling methodology of the Random Moment Time Study of field workers performing Social Services program activities used only one code to identify training. Also, the State indicated that the training program was designed specifically to provide the essential skills for staff to administer the title IV-E program. The State maintained that the codes and allocation principles were part of the approved CAP which was used to distribute costs to the respective Federal programs.

### OIG Response

The State's sampling methodology allocated training costs to the Foster Care programs. These training costs were then allocated between the Federal title IV-E program and the State-only Foster Care program. However, the audit team's point was that other benefiting programs such as Emergency Assistance did not receive an allocation of training costs.

Although the CAP had been approved by HHS, DCA, the plan was inequitable because it did not allocate indirect costs to all benefiting programs. Therefore, the audit team maintained that its recommendation to modify the CAP was appropriate.

## **Illinois**

### **State Comments**

The State did not comment on this issue.

## DEPARTMENT OF HEALTH &amp; HUMAN SERVICES

Office of the Secretary

Washington, D.C. 20201

FEB 25 1997

TO: June Gibbs Brown  
Inspector General

FROM: John J. Callahan  
Assistant Secretary for  
Management and Budget

SUBJECT: Audit of Training Contracts and Administrative Costs  
Charged to HHS Programs - A-02-02002 - Draft

IG	_____
EAIG	_____
SAIG	_____
PDIG	_____
DIG-AS	_____
DIG-EC	_____
DIG-EI	_____
DIG-OI	_____
DIG-MP	_____
AIG-LC	_____
OGC/IG	_____
ExecSec	_____
Date Sent	2-26

We have reviewed the above referenced audit and are in substantial agreement with the findings. The following are our comments and corrective actions that we anticipate taking in the future.

A number of findings dealt with states applying inappropriate Federal financial participation (FFP) rates to the ACF IV-E program. As these findings deal solely with that program and involve the application of applicable IV-E laws and regulations, we defer to ACF for making a final decision as to the propriety of those claims.

Another re-occurring finding was the failure to adequately allocate training costs to all benefitting programs. The auditors correctly established the programs involved and we support the questioning of the costs charged.

With respect to questioned costs in California concerning in-kind matching, we will pursue this with ACF. Specifically, we will ask them to address the apparent conflict in policy between the Regional and Headquarters Offices. It has been a longstanding policy of the Department that in-kind matching from private institutions may not be recognized as allowable state matching.

In Missouri, the auditors did not quantify training costs that were overcharged to child welfare programs (page 36 of the report). The overcharges occurred as a result of the state failing to include in the distribution base all benefitting programs. While the auditors correctly recommended that the cost allocation plan (CAP) be amended in future periods, no costs were questioned retroactively because the state was operating under an approved CAP. We request that the auditors reassess this position and monetize the overcharges.

A public assistance cost allocation plan (PACAP) is a narrative description of how costs are to be allocated. Approval of such plans is for the methodologies contained therein and not for costs covered by the plans. Further, a responsible state official must certify that the allocation of costs will exclude unallowables and that the principles of OMB Circular A-87 will be followed in the allocation of costs. The Circular requires that: (1) costs be

allocated to all benefitting programs; (2) costs may not be shifted to avoid funding deficiencies; and (3) to be allowable, costs must be allocable.

Quite often a PACAP will stipulate that a given activity or cost center will be allocated or charged to a specific program. Given the allocability requirements of A-87 and a state official's attestation that those rules will be followed, a Federal reviewer assumes that all benefitting programs have been identified and included in the base. If it is later determined that the state failed to include all benefitting programs in the base, which is the situation in Missouri, we are not precluded from retroactively seeking a cost adjustment. Again, this is a longstanding position in the Department. We would support a monetary finding on this issue.

We also support the auditors' findings concerning the claiming of indirect costs by the universities in California. The state should not have reimbursed indirect costs where the rate was applied to flow-thru funds, capital expenditures and stipends.

Lastly, the auditors recommend that the ASMB not only notify operating agencies of the findings in this report but also coordinate efforts to periodically review future training expenditures. We fully concur with this recommendation and will take appropriate action.

The auditors are to be commended in identifying a potential recovery of \$37M in Federal funds and resulting cost savings in the future. We appreciate this support and the recommendations contained in the report. Should you have any questions or need additional information, please have your staff contact Ronald Speck on (202) 401-2751.

## **ABBREVIATIONS**

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<b>DOJ</b>	Department of Justice
<b>NYSDSS</b>	New York State Department of Social Services
<b>CIN</b>	Common Identification Number
<b>FP</b>	Federal participating
<b>FNP</b>	Federal non-participating
<b>OAS</b>	Office of Audit Services
<b>FFP</b>	Federal financial participation
<b>DCA</b>	Division of Cost Allocation
<b>HHS</b>	Department of Health and Human Services
<b>DAB</b>	Departmental Appeals Board
<b>ACF</b>	Administration for Children and Families
<b>OMB</b>	Office of Management and Budget
<b>ACYF</b>	Administration for Children, Youth and Families
<b>OHDS</b>	Office of Human Development Services
<b>CAP</b>	Cost allocation plan
<b>LA</b>	Los Angeles
<b>CFR</b>	Code of Federal Regulations
<b>OFM</b>	Office of Financial Management
<b>DHRS</b>	Florida Department of Rehabilitative Services
<b>DHS</b>	New Jersey Department of Human Services
<b>DYFS</b>	New Jersey Division for Youth and Family Services
<b>HRDI</b>	New Jersey Department of Personnel, Human Resource Development Institute
<b>CWTI</b>	Illinois Department of Children and Family Services, Child Welfare Training Institute
<b>SSU</b>	Sagamon State University
<b>GSU</b>	Governor's State University
<b>NIU</b>	Northern Illinois University
<b>PIQ</b>	Policy Interpretation Question
<b>CSULB</b>	California State University, Long Beach
<b>USC</b>	University of Southern California
<b>DCS</b>	California Department of Children's Services
<b>LLU</b>	Loma Linda University
<b>SAMAS</b>	State Automated Management Accounting System
<b>ASMB</b>	Assistant Secretary for Management and Budget