

**Memorandum**

JUL 7 1992

Date

From

Richard P. Kusserow
Inspector General

Subject

Review of Funds Awarded Under The Title IV-E Independent Living Program To The West Virginia Department of Health and Human Resources (A-03-92-00550)

To

Jo Anne B. Barnhart
Assistant Secretary for
Children and Families

The purpose of this memorandum is to alert you to the issuance on July 8, 1992 of our final audit report. A copy is attached.

The West Virginia Department of Health and Human Resources (DHHR) submitted annual applications for Independent Living Program (ILP) funds each year since the program was established in Fiscal Year (FY) 1987 and was awarded over \$1.6 million by the Federal Government. At the time of our review, DHHR had not spent any of this award in accordance with Federal regulations. Specifically, DHHR misspent 37 percent of the awarded ILP funds, forfeited use of 48 percent of the awarded funds and will forfeit use of the remaining 15 percent of the awarded funds unless major improvements are made in its accounting system.

The Consolidated Omnibus Budget Reconciliation Act of 1985 authorized funds to States to assist eligible children in making the transition from the Title IV-E Foster Care program to independent living. States may use ILP funds to provide eligible children services such as assistance to complete high school, vocational training in daily living skills, and counseling.

Our review showed that DHHR had not established a cost center to control Federal expenditures under the Title IV-E ILP, and had not reported a single Federal expenditure to the Administration for Children and Families (ACF) during the 5-year period. Further, DHHR:

- o could not account for the \$598,381 (37 percent) that it had drawn down. The DHHR surmised that, if expended, the funds were spent on salaries of State personnel which were unrelated to authorized ILP activities;

- o forfeited use of \$786,320 (48 percent) that was not drawn down and expended within the time frames established by Federal regulations; and
- o could forfeit use of an additional \$251,342 (15 percent) in FY 1991 funds unless the funds are drawn down and properly expended by September 30, 1992.

This supports and confirms some of the findings we reported to you in our draft report titled, "Review of Internal Controls Over Independent Living Program Funds Awarded States (CIN: A-03-91-00552)." Specifically, ACF: (1) did not aggressively pursue DHHR although they clearly violated Federal financial reporting requirements; (2) did not promptly close out and deobligate the funds not drawn down by DHHR after the awards had lapsed; and (3) continued to allow DHHR to participate in the ILP when they continually failed to meet Federal requirements.

We are recommending that DHHR halt all future applications for ILP funds until it designs a method to properly account for and expend program funds. We are also recommending that DHHR report to ACF the status of all ILP funds awarded, and make a financial adjustment of \$598,381 to the Federal Government.

In responding to a draft of this report, DHHR stated that it had no recommendations for changes to the report.

If you have any questions, please call me or have your staff contact John A. Ferris, Assistant Inspector General for Human, Family and Departmental Services Audits, at (202) 619-1175.

Attachment

Department of Health and Human Services

OFFICE OF
INSPECTOR GENERAL

REVIEW OF FUNDS AWARDED UNDER
THE TITLE IV-E INDEPENDENT LIVING
PROGRAM TO THE WEST VIRGINIA
DEPARTMENT OF HEALTH AND HUMAN
RESOURCES



Richard P. Kusserow
INSPECTOR GENERAL

A-03-92-00550

Re: Common Identification Number A-03-92-00550

Mr. Harry Burgess
Director
West Virginia Department of Health
and Human Resources
Office of Social Services
Capitol Complex, Building 6 - Room 805
Charleston, West Virginia 25305

Dear Mr. Burgess:

This audit report presents the results of our REVIEW OF FUNDS AWARDED UNDER THE TITLE IV-E INDEPENDENT LIVING PROGRAM (ILP) TO THE WEST VIRGINIA DEPARTMENT OF HEALTH AND HUMAN RESOURCES (DHHR), FOR THE PERIOD OCTOBER 1, 1986 THROUGH SEPTEMBER 30, 1991. During this period, the Department of Health and Human Services' Administration for Children and Families (ACF), formerly the Office of Human Development Services, through its Administration for Children, Youth and Families awarded DHHR \$1,636,043 to implement an ILP under Title IV-E of the Social Security Act.

The purpose of our review was to determine the status of the ILP funds awarded DHHR (formerly the Department of Health and the Department of Human Services), including the \$598,381 that had been drawn down (requested and received funds from the Federal Government) by DHHR.

Our review showed that DHHR had submitted annual applications for ILP funds each year since the program was established in Fiscal Year (FY) 1987 and had been awarded over \$1.6 million by the Federal Government. The DHHR had not established a cost center to control Federal expenditures under the Title IV-E ILP, and had not reported a single Federal expenditure during the 5-year period under review. As a result, DHHR:

The DHHR did not establish accounting controls over Title IV-E ILP funds.

- o could not account for the \$598,381 that it had drawn down, other than to surmise that the funds were spent on salaries of State personnel rather than authorized ILP related expenditures;
- o forfeited use of \$786,320 that was not drawn down and expended within the time frames established by Federal regulations; and
- o could forfeit use of an additional \$251,342 in FY 1991 funds unless the funds are drawn down and properly expended by September 30, 1992.

We are recommending that DHHR halt all future applications for ILP funds until it designs a method to account for program funds and to determine the allowability of program expenditures; and report to the ACF the status of all ILP funds awarded. We are also recommending that DHHR make a financial adjustment of \$598,381 to the Federal Government.

By letter dated April 3, 1992, DHHR responded to a draft of this report. The DHHR appreciated the opportunity to respond to our draft and stated that it had no recommendations for changes to the report. A copy of the response is included as an attachment to this report.

BACKGROUND

The Consolidated Omnibus Budget Reconciliation Act of 1985 (Public Law 99-272), through the addition of section 477 to Title IV-E of the Social Security Act, authorized funds to States to assist eligible children in making the transition from the Title IV-E Foster Care program to independent living. Services authorized under the ILP include: assistance to complete high school; vocational training in daily living skills; counseling; coordination of other services; outreach activities; and the development of individualized plans for the transition to independent living.

To obtain ILP funds, States had to submit an application showing how the funds were to be expended. For those States that submitted applications, each was annually allocated a share based on a standard formula. In FY 1987 when the program was started, \$45 million was allocated to the States. By FY 1991, the total

allocation grew to \$60 million. During that 5-year period, DHHR was awarded a total of \$1,636,043 as shown below.

<u>FY</u>	<u>Award</u>
1987	\$335,123
1988	338,098
1989	339,121
1990	372,359
1991	251,342
Total	<u>\$1,636,043</u>

According to the provisions of the public law that established the ILP, and ACF instructions, States had to spend the FYs 1987 and 1988 fund awards by September 30, 1989. Each subsequent year's award had to be spent by September 30 of the following year. If the ILP funds were not spent within these time frames, States forfeited use of the funds and were required to refund them to the Federal Government.

States were required to report to ACF all expenditures under the Title IV-E ILP on a quarterly Financial Status Report (FSR) in accordance with 45 CFR 74.73(a) and ACF Program Instruction issued on February 10, 1987. The 45 CFR 74.73(c) states that "a final report shall be required upon expiration or termination of grant support." The due date for the FSRs are specified in 45 CFR 74.73(d):

"When reports are required on a quarterly or semiannual basis, they shall be due 30 days after the reporting period...Final reports shall be due 90 days after the expiration or termination of grant support."

On the FSR for the last quarter of each FY, States were to specifically report ILP funds as being either unobligated or expended. Unliquidated obligations were to be reported as unobligated funds.

SCOPE OF REVIEW

Our review was performed in accordance with generally accepted government auditing standards. The primary purpose of our review was to determine the status and accountability of the \$1,636,043 of Title IV-E ILP funds awarded to DHHR in FYs 1987 through 1991.

Prior to visiting DHHR, we had obtained information from ACF, Headquarters, the Federal Assistance Financing Branch, and the Division of Accounting Operations within the Office of the Assistant Secretary for Management and Budget. The information showed that the State had drawn down a portion of the ILP funds awarded since the inception of the ILP but had not reported a single ILP expenditure up to FY 1989, the latest information that we reviewed at the above organizations.

Our review was conducted during January and February 1992 and included an examination of available records and supporting documentation in the DHHR offices in Charleston, West Virginia.

RESULTS OF REVIEW

The DHHR has operated an ILP since 1983. In FY 1987, Federal ILP funds became available. Our review showed that from FY 1987 through FY 1991, DHHR applied for Title IV-E ILP funds and was awarded a total of \$1,636,043. The

The DHHR misused all \$598,381 of ILP funds that it actually received and forfeited use of an additional \$786,320.

DHHR drew down only \$598,381, or 37 percent of the amount awarded for the 5-year period.

The DHHR, however, could not account for the \$598,381 drawn down in FYs 1987 through 1989 (no draw downs were made in FYs 1990 and 1991) because, according to DHHR officials, it did not establish a method of accounting for the Federal funds, did not establish a cost center to accumulate expenses for the Federal ILP, and did not establish a means of identifying allowable Title IV-E ILP expenditures versus the expenditures incurred under the State-funded program. As a result, DHHR officials were unable to provide us with any documentation as to how the \$598,381 was expended. They surmised that the funds, if spent, were probably expended for unrelated salaries of State employees when the State government was experiencing budgetary problems in the 1980s.

In view of DHHR's inability to document how the Title IV-E ILP funds were spent, we believe that the entire amount of the draw down--\$598,381--is unallowable. Furthermore, as shown below, all of the ILP funds awarded, save the FY 1991 award, have elapsed and can no longer be drawn down and spent by DHHR.

<u>FY</u>	<u>Awarded</u>	<u>Drawn Down</u>	<u>ILP Expenses</u>	<u>Lapsed</u>	<u>To Be Refunded</u>
1987	\$335,123	\$213,035	-0-	\$335,123	\$213,035
1988	338,098	338,098	-0-	338,098	338,098
1989	339,121	47,248	-0-	339,121	47,248
1990	372,359	-0-	-0-	372,359	-0-
1991	251,342*	-0-	-0-	-0-	-0-
TOTAL	<u>\$1,636,043</u>	<u>\$598,381</u>	<u>-0-</u>	<u>\$1,384,701</u>	<u>\$598,381</u>

* These are the FY 1991 funds awarded as of the time of our field review. Additional FY 1991 ILP funds may have been awarded at a later date.

The above chart shows that DHHR had not drawn down \$122,088 in FY 1987; \$291,873 in FY 1989 and \$372,359 in FY 1990. Since these funds were not drawn down within the time frames established by Federal regulations (September 30, 1989, September 30, 1990 and September 30, 1991 for FYs 1987, 1989 and 1990 awards, respectively), DHHR has forfeited the use of these funds which total \$786,320. The DHHR will forfeit the use of an additional \$251,342 (FY 1991 funds) on September 30, 1992 unless it draws down these funds, spends them in accordance with Federal regulations, and submits the required FSRs to ACF.

We brought this matter to the attention of DHHR officials. In response, DHHR prepared a FSR dated February 5, 1992, covering the period October 1, 1990 to December 31, 1991. The FSR shows that \$54,949 of the \$251,342 of the FY 1991 award was obligated for an agreement with West Virginia University to provide ILP related technical assistance. We have the following observations to make on this FSR.

1. The FSR's are to be made quarterly and are not intended to cover a 15-month period.
2. As of February 5, 1992, none of the \$251,342 was drawn down; thus we question how it could be obligated by DHHR as of October 1, 1990.
3. The entire amount of the contract with West Virginia University was for \$54,949. The DHHR has to determine how much of this cost should be allocated to the Title IV-E ILP, since program requirements differ between the Federal and State programs.

Conclusions and Recommendations

The DHHR has operated an ILP since 1983, and since FY 1987 has been awarded Title IV-E ILP funds totaling over \$1.6 million. The DHHR, however, had not established an adequate system to control these funds. As a result, DHHR could not account for the \$598,381 of ILP funds that it had drawn down, and had forfeited the use of an additional \$786,320, since the statutory cut-off for spending these funds had lapsed.

The DHHR's failure to spend the ILP funds in accordance with Federal regulations--it did not report a single expenditure during the 5-year period of our review--not only may have had a direct adverse effect in the State of West Virginia, but also an indirect adverse effect in other States that, through a Federal reallocation, may have been able to use the funds that were subsequently forfeited by DHHR.

We, therefore, recommend that DHHR:

1. Halt the submission of applications for Title IV-E ILP fund awards until a method has been established to account for Federal funds and to determine the allowability of the expenditures of these funds.
2. Submit expenditure reports in accordance with Federal regulations. The FSRs for prior years should be submitted to ACF showing the lapsed amounts identified on page 5 of this report.
3. Refund to the Federal Government \$598,381 in ILP funds that were drawn down but not documented as spent on the Title IV-E ILP.

DHHR Response

In its response to a draft of this report, DHHR did not argue any of the issues contained in this report.

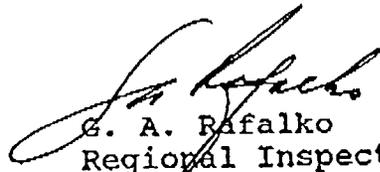
The HHS action official will contact you to resolve the issues in this audit report. Any comments or information that you believe may have a bearing on the resolution of this audit may be presented at that time.

Page 7 - Mr. Harry Burgess

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), HHS/OIG Office of Audit Services reports issued to the Department's grantees and contractors are made available, if requested, to members of the press and general public to the extent information contained therein is not subject to exemptions in the Act, which the Department chooses to exercise. (See Section 5.71 of the Department's Public Information Regulation, dated August, 1974, as revised.)

To facilitate identification, please refer to Common Identification Number A-03-92-00550 in all correspondence relating to this report.

Sincerely yours,


G. A. Rafalko
Regional Inspector General
for Audit Services

HHS Contact:

Director, Office of Management Services
Administration for Children and Families
Room 309D - HHH Building
200 Independence Avenue, SW
Washington, D.C. 20201



STATE OF WEST VIRGINIA
DEPARTMENT OF HEALTH AND HUMAN RESOURCES

Gaston Caperton
Governor

OFFICE OF SOCIAL SERVICES
Building 6, Room 850, Capitol Complex
Charleston, West Virginia 25305
(304) 348-7980

April 3, 1992

G.A. Rafalko
Regional Inspector General
for Audit Services
U.S. Department of Health and Human Services
Post Office Box 13716, Mail Stop 9
Philadelphia, Pennsylvania 19101

RE: Common ID#: A-03-92-00550

Dear Mr. Rafalko:

I appreciate the opportunity to review the draft report of the review of the Title IV-E independent living program for the period of October 1, 1986 through September 30, 1991.

We do not have any recommendations for changes in the report at this time. However, we do appreciate the opportunity to make this review.

Sincerely,

A handwritten signature in cursive script, appearing to read "Harry A. Burgess".

Harry A. Burgess, Director
Office of Social Services

HAB:msb

cc: Tom Strawderman
Debbie Mullins
Shirlee Lively