



DEPARTMENT OF HEALTH AND HUMAN SERVICES

Office of Inspector General
Office of Audit Services

APR 6 2006

REGION IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Report Number: A-04-03-00022

Mark D. Birdwhistell, Secretary
Cabinet for Health and Family Services
275 East Main Street, 5W-A
Frankfort, Kentucky 40621

Dear Mr. Birdwhistell:

Enclosed are two copies of the Department of Health and Human Services (HHS), Office of Inspector General (OIG) final report entitled "Audit of Kentucky's Title IV-E Training Costs." A copy of this report will be forwarded to the action official below for his review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

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If you have any questions or comments about this report, please do not hesitate to call me or John Drake, Audit Manager, at (404) 562-7755 or through e-mail at john.drake@oig.hhs.gov. To facilitate identification, please refer to report number A-04-03-00022 in all correspondence.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori S. Pilcher", written over a horizontal line.

Lori S. Pilcher
Regional Inspector General
for Audit Services, Region IV

Enclosures

Page 2 – Mark D. Birdwhistell

Direct Reply to HHS Action Official:

Carlis V. Williams
Regional Administrator
Administration for Children and Families
Region IV

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF KENTUCKY'S TITLE IV-E
TRAINING COSTS**



**Daniel R. Levinson
Inspector General**

**APRIL 2006
A-04-03-00022**

Office of Inspector General

<http://oig.hhs.gov>

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OAS FINDINGS AND OPINIONS

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



EXECUTIVE SUMMARY

BACKGROUND

Title IV-E of the Social Security Act, as amended, authorizes Federal funds for States to provide foster care and adoption assistance for children under an approved State plan. The Federal Government, through the Administration for Children and Families (ACF), provides funding at a 50-percent rate for State administrative expenditures and at an enhanced 75-percent rate for certain State training expenditures. In Kentucky, the Cabinet for Health and Family Services¹ (the State agency) administers the Title IV-E program.

Sixty-three percent of the costs of training charged to Title IV-E in Kentucky were paid under contract with Eastern Kentucky University (EKU) through the University Training Consortium. The University Training Consortium is a comprehensive training and collaborative partnership of public and private universities within the State. EKU serves as the lead member and fiscal agent of the consortium. EKU's Training Resource Center is responsible for developing, implementing, and monitoring subcontracts with member universities.

The State agency used its time study results to allocate 33 percent of Title IV-E training costs. These costs consisted of the salaries and benefits of State agency staff for their time and effort expended in training activities. A random moment time study is a statistical sampling technique that allows States to account for the use of staff resources when claiming Federal funds to support its public assistance programs. The time study allows States to allocate costs to these programs without keeping detailed time records.

The remaining 4 percent of Title IV-E training costs relates to training obtained from other outside sources such as Eastern Kentucky University District, Out of House, and Group Home training costs.

During the 2-year audit period between April 1, 2001, and March 31, 2003, the State agency claimed Title IV-E training costs totaling \$28.5 million (\$21.4 million Federal share). Of the \$28.5 million in training costs, the State agency claimed:

- \$18.1 million (\$13.5 million Federal share) through its contract with EKU,
- \$9.4 million (\$7.1 million Federal share) through its time study, and
- \$1 million (\$0.8 million Federal share) through other outside sources.

¹Prior to December 2003, the Cabinet for Families and Children was the Title IV-E State agency. In December 2003, the Cabinet for Families and Children was combined with the Cabinet for Health Services to create the Cabinet for Health and Family Services.

OBJECTIVE

Our objective was to determine the allowability of Title IV-E training costs the State agency claimed for the period April 1, 2001, through March 31, 2003.

SUMMARY OF FINDINGS

The State agency did not always follow Federal regulations regarding allowability of EKV and other Title IV-E training costs. These deficiencies occurred because the State agency: (1) was not always aware of Title IV-E laws, regulations, and program policies and (2) did not have adequate procedures to ensure that it claimed only eligible training costs.

Eastern Kentucky University Title IV-E Training Costs

The State agency claimed \$18.1 million (\$13.5 million Federal share) in Title IV-E training costs for 1,829 training courses provided by EKV during the period April 2001 through March 2003 (see Appendix A).

Our joint review of course topics with ACF disclosed that the State agency appropriately claimed \$10.9 million (\$8.1 million Federal share) associated with 1,263 courses. However, issues arose for the remaining \$7.2 million (\$5.4 million Federal share) related to the balance of 566 courses:

1. Two hundred and forty-five courses related to general subject matter were claimed at the enhanced 75-percent rate instead of the required 50-percent rate. We recalculated the amount claimed for these 245 courses and found that part of the Federal share of \$2.7 million was overstated. As a result, we accepted \$1.8 million of the amount the State claimed for Federal reimbursement and questioned the balance of \$900,185.
2. Twenty courses did not meet the definition of allowable activities, resulting in an overpayment of \$218,078 (\$163,558 Federal share).
3. Three hundred and one courses may have been inappropriately allocated to Title IV-E. We have set aside \$3.4 million (\$2.6 million Federal share) for the State and ACF to review.

Other Title IV-E Training Costs

The State agency could not adequately support the methods used to calculate Title IV-E's portion of salaries and fringe benefits:

4. The random moment time study used to allocate employees' salaries and fringe benefits to Title IV-E training potentially overstated the amount claimed for Federal reimbursement. As a result, we have set aside \$9.4 million (\$7.1 million Federal share) for the State and ACF to review. The State agency is currently working with the Division of Cost Allocation in an effort to revise its random moment time study.

RECOMMENDATIONS

We recommend the following:

- The State agency should reduce reported Federal reimbursement for training courses provided by EKU by \$1,063,743 (Federal share) through a prior quarter adjustment on its next Federal Quarterly Report of Expenditures. The adjustment includes \$900,185 in overpayments from applying the 75-percent rate instead of the 50-percent rate and \$163,558 in unallowable EKU courses.
- The State agency should work with ACF to determine the allowable portion of \$9.7 million (Federal share) in both EKU training costs (\$2.6 million) and State agency employee salaries and fringe benefits (\$7.1 million) allocated to the Title IV-E program.
- The State agency should develop procedures for:
 - claiming direct training costs at the appropriate rate,
 - claiming only allowable training costs for Federal reimbursement, and
 - equitably allocating employee salary and fringe benefit costs to the Title IV-E program.

We further recommend that the State agency review its Title IV-E training claims submitted after March 31, 2003. Based on the findings and recommendations discussed above, the State agency should make adjustments as necessary on its Federal Quarterly Report of Expenditures.

State Agency Comments

In written comments on the draft report, State agency officials agreed to return \$484,910 of the \$1,063,743 (Federal share), work with ACF to determine the allowable portion of costs we set aside, and implement and maintain additional procedures. The balance of \$578,833 is the result of the State:

- using a different method for calculating the cost of the courses and reclassifying courses that should have been claimed at the 50-percent rate instead of the 75-percent rate (\$512,274) and
- reclassifying unallowable training hours as allowable (\$66,559).

State agency officials did not comment on our recommendation to review its Title IV-E training claims submitted after March 31, 2003, and make adjustments as necessary on its Federal Quarterly Report of Expenditures.

The complete text of the State's comments is included in Appendix B.

Office of Inspector General Response

We are pleased that State officials have agreed to work with ACF to determine the allowable portion of costs we set aside and to implement and maintain the recommended procedures. However, in regard to overpayments, we continue to believe that we reasonably calculated the overpayments for courses claimed at the incorrect rate and correctly classified 20 training courses as unallowable.

We continue to recommend that the State agency review its Title IV-E training claims submitted after March 31, 2003, and make adjustments as necessary on its Federal Quarterly Report of Expenditures.

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INTRODUCTION

BACKGROUND

Federal Foster Care and Adoption Assistance Program

Title IV-E of the Social Security Act (the Act), as amended, authorizes Federal funds for States to provide foster care and adoption assistance for children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the program. The Kentucky Cabinet for Health and Family Services (the State agency) is responsible for administering the program at the State level.

For children who meet Title IV-E program requirements, Federal funds are available to States for maintenance, administrative, and training costs:

- Maintenance costs include room and board payments to licensed foster parents, group homes, and residential childcare facilities. The Federal share of maintenance costs is based on each State's Federal rate for Title XIX Medicaid expenditures.
- Administrative costs cover limited staff activities specifically defined in Federal regulations such as case management and supervision of children placed in foster care and of children considered to be Title IV-E candidates based on federally defined standards, preparation for and participation in court hearings, placements of children, recruitment and licensing for foster homes and institutions, and rate setting. Also reimbursable under this category is a proportionate share of overhead costs. The Federal share of administrative costs allocable to the Title IV-E program is 50 percent.
- Training costs are limited to costs associated with training State agency staff or local staff of the State agency to perform the allowable Title IV-E administrative activities discussed above. Training costs are also limited to providing short-term training for current or prospective foster care or adoptive parents, as well as personnel working in childcare institutions. Certain State training costs qualify for an enhanced 75-percent Federal funding rate.

Federal Reimbursement Requirements

The Act authorizes Federal reimbursement to States at a 75-percent matching rate for training of personnel employed or preparing for employment by the State or local agency administering the Title IV-E program (Title IV-E, section 474(a)(3)(A)). Title IV-E regulations (45 CFR § 1356.60(b)) state that Federal reimbursement is available at 75 percent of the costs for short- and long-term training at educational institutions and for in-service training. The regulations (1356.60 (b)(3)) incorporate the provisions of 45 CFR § 235.63, 235.64, and 235.66(a) which specify who may be trained, the types of expenses that are allowable, and sources of funds for the non-Federal share of expenditures. Regulations (45 CFR § 1356.60(c)) also provide for a 50-percent Federal reimbursement

rate for administrative expenditures. In addition, ACF customarily allows 50-percent reimbursement for training activities with a general subject matter.

All training activities and costs charged to the Title IV-E program should be included in the State's Title IV-B training plan (45 CFR § 1356.60(b)(2)). The State training plan describes the training activities and costs that the State agency plans to charge to Title IV-E training at the enhanced 75-percent Federal funding rate and to other Federal and non-Federal programs and funding sources. All training costs must be allocated to Title IV-E, State foster care, and other State and Federal programs to assure that each participating program is charged its proportionate share of costs (ACF policy instructions numbers ACYF-PA-90-1 and ACF-IM-91-15).

Kentucky's Training Costs

Sixty-three percent of the costs of training charged to Title IV-E in Kentucky were paid under contract with Eastern Kentucky University (EKU) through the University Training Consortium. The University Training Consortium is a comprehensive training and collaborative partnership of public and private universities within the State. EKU provides oversight and serves as a liaison between the State agency and participating universities. All universities are subcontractors of EKU. EKU's Training Resource Center is responsible for developing, implementing, and monitoring subcontracts with member universities. The State agency makes claims to ACF for both its own training costs and for EKU's.

The State agency used its random moment time study (the time study) results to allocate 33 percent of its Title IV-E training costs. These costs consisted of the salaries and benefits of State agency staff for their time and effort expended in training activities. A random moment time study is a statistical sampling technique that allows the State agency to account for the use of staff resources when claiming Federal funds to support its public assistance programs. The time study allows the State agency to allocate costs to these programs without keeping detailed time records. The State agency included a random moment time study methodology as part of its public assistance cost allocation plan. The Division of Cost Allocation (DCA) approved the State agency's public assistance plan.

The remaining 4 percent of Title IV-E training costs relates to training obtained from other outside sources such as Eastern Kentucky University District, Out of House, and Group Home training costs.

During the 2-year audit period between April 1, 2001, and March 31, 2003, the State agency claimed Title IV-E training costs totaling \$28.5 million (\$21.4 million Federal share). Of the \$28.5 million in training costs, the State agency claimed:

- \$18.1 million (\$13.5 million Federal share) through its contract with EKU,
- \$9.4 million (\$7.1 million Federal share) through its time study, and
- \$1 million (\$0.8 million Federal share) through other outside sources.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine the allowability of Title IV-E training costs the State agency claimed for the period April 1, 2001, through March 31, 2003.

Scope

Our audit covered \$28.5 million (\$21.4 million Federal share) in Title IV-E training costs claimed for Federal reimbursement by the State agency for the period April 1, 2001, through March 31, 2003. We did not review the overall internal control structure of the State agency. Our review of internal controls was limited to obtaining an understanding of the State agency's procedures regarding its Title IV-E claims. We performed fieldwork at the State agency in Frankfort, KY and at the ACF regional office in Atlanta, GA.

Methodology

To accomplish our audit objective, we:

- reviewed Federal regulations and policies and procedures related to the Title IV-E program, including the State IV-B training plan;
- reviewed applicable working papers prepared by the Kentucky Auditor of Public Accounts;
- interviewed regional ACF, DCA, State agency, and university officials;
- verified that the Title IV-E training costs claimed were supported by the State agency's records;
- performed a systems walk-through by tracing the State agency's Title IV-E training costs claimed for the quarter ended March 31, 2003, to detailed documentation;
- verified the application of the Title IV-E saturation rate, which is the ratio of children eligible for Title IV-E foster care to the total number of children in foster care;
- examined ECU's training contract with the State agency;
- reviewed a judgmental sample of 30 transactions and supporting documentation related to ECU training costs charged to the Title IV-E program;
- reviewed, in conjunction with ACF officials, the topics of 1,829 training courses provided by ECU to determine their allowability;

- computed the average Title IV-E costs per hour by dividing ECU's Title IV-E training costs by the total ECU Title IV-E training hours; and
- applied the average cost per training hour to quantify costs that were accepted, questioned, or set-aside (see Appendix A).

We computed and applied an average Title IV-E cost per training hour because ECU did not maintain accounting records in such a manner that the cost of individual training projects could be determined. Instead, ECU accumulated the costs in the accounting records by funding source. While the detailed supporting records identified the funding source, in most cases, they could not be traced to a particular course.

We conducted our audit in accordance with generally accepted government auditing standards.

FINDINGS AND RECOMMENDATIONS

The State agency did not always follow Federal regulations regarding allowability of ECU and other Title IV-E training costs. These deficiencies occurred because the State agency: (1) was not always aware of Title IV-E laws, regulations, and program policies and (2) did not have adequate procedures to ensure that it claimed only eligible training costs.

Eastern Kentucky University Title IV-E Training Costs

The State agency claimed \$18.1 million (\$13.5 million Federal share) in Title IV-E training costs for 1,829 training courses provided by ECU during the period April 2001 through March 2003 (see Appendix A).

Our joint review of course topics with ACF disclosed that the State agency appropriately claimed \$10.9 million (\$8.1 million Federal share) associated with 1,263 courses. However, issues arose for the remaining \$7.2 million (\$5.4 million Federal share) related to the balance of 566 courses:

1. Two hundred and forty-five courses related to general subject matter were claimed at the enhanced 75-percent rate instead of the required 50-percent rate. We recalculated the amount claimed for these 245 courses and found that part of the Federal share of \$2.7 million was overstated. As a result, we accepted \$1.8 million of the amount the State claimed for Federal reimbursement and questioned the balance of \$900,185.
2. Twenty courses did not meet the definition of allowable activities, resulting in an overpayment of \$218,078 (\$163,558 Federal share).

3. Three hundred and one courses may have been inappropriately allocated to Title IV-E. We have set aside \$3.4 million (\$2.6 million Federal share) for the State and ACF to review.

Other Title IV-E Training Costs

The State agency could not adequately support the methods used to calculate Title IV-E's portion of salaries and fringe benefits:

4. The random moment time study used to allocate employees' salaries and fringe benefits to Title IV-E training potentially overstated the amount claimed for Federal reimbursement. As a result, we have set aside \$9.4 million (\$7.1 million Federal share) for the State and ACF to review. The State agency is currently working with DCA in an effort to revise its random moment time study.

1. Costs of Training Activities With a General Subject Matter Inappropriately Claimed at The Enhanced Training Rate

The State agency overstated its Title IV-E training costs by \$900,185 for 245 training courses with a general subject matter. This training was not allowable at the enhanced rate of 75 percent because the subject matter of the training did not relate to one of the specific activities cited at 45 CFR § 1356.60(c)(1) and (2). However, these general training activities, if properly allocated, were allowable at the 50-percent rate.

Federal Requirements

While administrative costs for the Title IV-E program are reimbursed at the 50-percent rate, Title IV-E training costs are reimbursed at an enhanced 75-percent rate (45 CFR § 1356.60 (b)(1)). However, training costs are allowable only to the extent that training is designed to prepare agency employees and limited other trainees to carry out the allowable administrative functions listed at 45 CFR § 1356.60(c)(1) and (2). Departmental Appeals Board (DAB) Decision Number 1530 upheld that the subject matter of training must be related to the specific administrative activities at 45 CFR § 1356.60(c)(1) and (2). If the activity is not stated in these regulations, the cost may not be claimed at the enhanced 75-percent rate. This does not preclude claiming the cost, if it is an administrative cost of the program, at the 50-percent rate as a Title IV-E administrative cost.

Training Costs Inappropriately Claimed at Enhanced Rate

The State agency claimed Title IV-E training costs for 245 of 1,829 courses at the enhanced 75-percent rate for training activities with a general subject matter. The training that should not have been claimed at the enhanced rate included general topics such as cardiopulmonary resuscitation, sexual harassment, anger and conflict management, computer basics, team building, office safety, time management, and employee evaluations. The State agency claimed the costs of providing these courses through its training contract with ECU.

The State Agency Was Unaware of Federal Position

Because the State agency was not aware that training activities with a general subject matter were not allowable at the enhanced 75-percent rate, it did not develop a process for ensuring training costs were claimed at the appropriate rate.

Federal Share Was Overstated for General Training Activities

As a result, the Federal Government paid \$900,185 (Federal share) more than its share of the Title IV-E costs associated with general training activities. The overpayment is the difference between calculating the Federal share of \$3.6 million at the 75-percent rate (\$2.7 million) and the 50-percent rate (\$1.8 million).

Recommendations

We recommend the following:

- The State agency should reduce reported Federal reimbursement for training courses provided by EKU by \$900,185 (Federal share) through a prior quarter adjustment on its next Federal Quarterly Report of Expenditures. The \$900,185 overpayment resulted from applying the 75-percent rate instead of the 50-percent rate.
- The State agency should develop procedures for claiming direct training costs at the appropriate rate.

State Agency Comments

Costs Of Training Activities With A General Subject Matter Inappropriately Claimed At The Enhanced Training Rate

State officials partially concurred with our recommendation to repay overpayments from applying the 75-percent rate instead of the 50-percent rate. Specifically, State officials will adjust \$387,911 of the recommended \$900,185 in the next quarterly report but believe the balance of \$512,274 is allowable because the: (1) method the Office of Inspector General (OIG) used to calculate the training cost per course yielded biased, highly skewed results that failed to portray the financial discrepancy caused by claiming at the enhanced versus the standard rate and (2) courses identified as “General” should have been considered allowable.

In regard to OIG’s methodology for calculating the cost per course, State officials said that it was more appropriate to divide the population into subsets that were more closely related based on costs. The subsets include: (1) computer/web-based trainings, (2) classroom-based trainings, (3) face-to-face instructional meetings, and (4) regional trainings. Using this approach, State officials determined that of the 245 courses in question, 106 courses

had either marginal or no cost and 139 courses had some cost. Based on the State's recalculation, the OIG's disallowance should be reduced by \$389,468.

In addition, State officials said that a further analysis of the 139 courses showed that 20 of the courses should have been considered allowable based on the learning objectives and subject matter. Accordingly, State officials believe that the OIG's recommended disallowance should be reduced by another \$122,806.

State officials agreed to work with ACF to develop procedures for claiming direct training costs at the appropriate rate.

Office of Inspector General Response

Costs of Training Activities With A General Subject Matter Inappropriately Claimed at The Enhanced Training Rate

As we discussed in the draft report and the State acknowledged in its written comments, ECU does not use a "cost based accounting system" for tracking costs per training event. Because ECU did not maintain accounting records in such a manner that the cost of individual training projects could be determined, we computed and applied an average Title IV-E cost per training hour. In recalculating the dollar value of our recommended disallowance, the State also used the average cost per training hour.

State officials were concerned that some disallowed courses had little or no costs. Since the training-hour cost we applied is an average, it stands to reason that some allowed courses at the average training hour cost had little or no cost. In addition, if some courses have marginal or no cost as State officials now report, the cost per training hour we applied to the other courses would increase.

State officials said they did not understand why some of the same courses were allowable for foster parents at the 75-percent enhanced rate and considered "general training" for others. Since foster parents are providing direct care, certain training courses would be considered allowable at the 75-percent enhanced rate, while they would be considered "general training" and allowed at the 50-percent rate for others administering the IV-E State plan. It is a combination of the subject matter of the course and the function of the trainee that determines the reimbursable percentage rate.

Finally, in their written comments, State officials did not identify the 106 courses they said had marginal costs, the 139 courses that had some costs, and the 20 courses that should be considered allowable. Therefore, we continue to believe that our calculation of a \$900,185 overpayment using an average cost per Title IV-E training hour was reasonable.

2. Unallowable Title IV-E Training Activities

The State agency claimed \$218,078 (\$163,558 Federal share) for 20 training courses that were unallowable for Title IV-E reimbursement either as training or administrative costs (45 CFR § 1356.60(c)(1) and (2)).

Federal Requirements

Training costs are associated with training State or local staff to perform administrative activities and with training current or prospective foster care or adoptive parents, as well as personnel working in childcare institutions (45 CFR § 1356.60(b)(1)).

Within that context, 45 CFR § 1356.60(c)(2) lists examples of allowable administrative activities including:

- referral to services,
- preparation for and participation in judicial determinations,
- placement of the child,
- development of the case plan,
- case reviews,
- case management and supervision,
- recruitment and licensing of foster homes and institutions,
- rate setting,
- costs related to data collection and reporting, and
- agency overhead (a proportionate share).

Training Costs Did Not Relate to Allowable Activities

The State agency claimed Title IV-E training costs for 20 of 1,829 courses that did not relate to allowable administrative activities (45 CFR § 1356.60(c)(2)). The unallowable training included topics such as “Child Fatality Investigations,” “Adult Maltreatment,” and “Field Training Specialist for Child Support.” Since the course topics did not directly or indirectly relate to the allowable activities, these costs were unallowable either as training or administration. The State agency claimed the costs of providing these courses through its training contract with ECU.

The State Agency Did Not Ensure Training Costs Were Allowable

These deficiencies occurred because the State agency did not have adequate procedures to ensure that it claimed only allowable training costs for Title IV-E reimbursement.

State Agency Over Claimed Title IV-E Training Costs

As a result, the State agency over claimed \$218,078 (\$163,558 Federal share) in Title IV-E costs associated with training activities that were not allowable for Title IV-E reimbursement.

Recommendations

We recommend the following:

- The State agency should reduce reported Federal reimbursement for training courses provided by ECU by \$163,558 (Federal share) through a prior quarter adjustment on its next Federal Quarterly Report of Expenditures. The \$163,558 overpayment resulted from unallowable ECU courses.
- The State agency should develop procedures for claiming only allowable training costs for Federal reimbursement.

State Agency Comments

Unallowable Title IV-E Training Activities

State officials agreed that a portion (\$96,999) of the 20 courses OIG identified as unallowable Title IV-E training activities were unallowable. The State reclassified 198.65 of unallowable training hours as allowable (122.15 hours) and general (76.50 hours). The reclassifications reduced unallowable costs by \$66,559.

State officials agreed to work with ACF to implement and maintain the OIG's recommendation to develop procedures for claiming only allowable training costs for Federal reimbursement.

Office of Inspector General Response

Unallowable Title IV-E Training Activities

The State agency did not provide supporting documentation justifying the reclassifications of training hours from unallowable to allowable. Therefore, we continue to recommend that the State agency reduce reported Federal reimbursement for training courses by \$163,558 (Federal share) through a prior quarter adjustment on its next Federal Quarterly Report of Expenditures.

3. Title IV-E Training Activities May Be Overstated

The State agency claimed \$3.4 million (\$2.6 million Federal share) in training costs that may have been overstated. These costs may not have related to allowable Title IV-E administrative activities or may need to be further allocated to other programs.

Federal Requirements

Training costs are associated with training State or local staff to perform administrative activities and training current or prospective foster care or adoptive parents, as well as personnel working in childcare institutions (45 CFR § 1356.60(b)(1)). The regulation lists examples of allowable administrative activities (45 CFR § 1356.60(c)(2)).

In addition, Federal cost principles for State, Local, and Indian Tribal Governments require that costs benefiting more than one program be equitably allocated (Office of Management and Budget (OMB) Circular A-87, Attachment A, Section C.3.a).

Training Costs May Not Have Been Related to Allowable Title IV-E Administrative Activities

The State agency claimed Title IV-E training costs for 301 of 1,829 courses that may not have been related to allowable Title IV-E administrative activities or may need to be further allocated to other programs. However, we were unable to make a clear determination. Examples of the training course topics included “Adolescent Issues,” “Behavior Management,” “Dynamics and Indicators of Families in Need of Services,” and “Family Group Decision Making.” The State agency claimed the costs of providing these courses through its training contract with ECU.

Process Needed for Identifying Allowable and Allocable Title IV-E Training Costs

The State agency did not have a process to ensure it claimed only Title IV-E training costs that were allowable and properly allocated.

Federal Share May be Overstated for Title IV-E Training Costs

As a result, the Federal Government may have paid \$3.4 million (\$2.6 million Federal share) more than its share of the Title IV-E costs.

Recommendation

We recommend that the State agency work with ACF to determine the allowable portion of \$2.6 million (Federal share) in ECU training costs.

State Agency Comments

Title IV-E Training Activities May Be Overstated

State officials agreed to work with ACF to determine the allowable portion of the \$2.6 million (Federal share) in ECU training costs.

4. Time Study for Title IV-E Training Activities That May Be Unallowable

In addition to the costs of the training activities performed under the ECU contract, the State agency claimed \$9.4 million (\$7.1 million Federal share) through its time study for employees' salaries and fringe benefits related to Title IV-E training that may have been overstated. Because we could not reconstruct the time study, we were unable to verify whether employee-training costs related to the Title IV-E program.

Federal Requirements

Training costs are associated with training State or local staff to perform administrative activities and training current or prospective foster care or adoptive parents, as well as personnel working in childcare institutions (45 CFR § 1356.60(b)(1)). The regulation lists examples of allowable administrative activities (45 CFR § 1356.60(c)(2)).

In addition, Federal cost principles for State, Local, and Indian Tribal Governments require that costs benefiting more than one program be equitably allocated (OMB Circular A-87, Attachment A, Section C.3.a).

Time Study Used to Claim Training Costs That May be Unallowable

The State agency used its time study to claim the costs of salaries and fringe benefits for employees that attended training. The salaries and fringe benefits applicable to training were allocated through the time study to Title IV-E based on the ratio of reported Title IV-E training time and activities to all time and activities reported by State agency workers. The time study did not identify the specific training activity being performed. Therefore, we could not verify whether the costs claimed through the time study were related to allowable Title IV-E activities and were appropriately allocated to all programs.

Inadequate Controls Over Time Study

The State agency did not have controls in place to ensure that costs claimed through the time study were allowable Title IV-E activities or should have been allocated to other programs. To correct this control problem, the State agency has been working with DCA to revise its time study methodology. On May 20, 2004, the State agency submitted amendment 97-6 to DCA for approval. However, based on August 19, 2005, communications with the State agency, DCA had not approved the amendment.

Federal Share May Be Overstated for Title IV-E Training Costs

As a result, the Federal Government may have paid more than its share of the \$9.4 million (\$7.1 million Federal share) in Title IV-E training costs allocated through the time study.

Recommendations

We recommend that the State agency work with ACF to:

- determine the allowable portion of \$7.1 million (Federal share) in State agency employee salaries and fringe benefits allocated to the Title IV-E program and
- develop procedures for equitably allocating employee salary and fringe benefit costs to the Title IV-E program.

We further recommend that the State agency review its Title IV-E training claims submitted after March 31, 2003. Based on the findings and recommendations discussed above, the State agency should make adjustments as necessary on its Federal Quarterly Report of Expenditures.

State Agency Comments

Time Study for Title IV-E Training Activities That May Be Unallowable

State officials agreed to work with ACF to: (1) determine the allowable portion of the \$7.1 million (Federal share) the State agency allocated to the Title IV-E program for employee salaries and fringe benefits and (2) develop procedures for equitably allocating employee salary and fringe benefit costs to the Title IV-E program.

State agency officials did not comment on our recommendation to review its Title IV-E training claims submitted after March 31, 2003, and make adjustments as necessary on its Federal Quarterly Report of Expenditures.

Office of Inspector General Response

Time Study for Title IV-E Training Activities That May Be Unallowable

We continue to recommend that the State agency review its Title IV-E training claims submitted after March 31, 2003, and make adjustments as necessary on its Federal Quarterly Report of Expenditures.

APPENDIXES

**Kentucky Cabinet for Health and Family Services
 Audit of Title IV-E Training Costs
 For the Period 4/1/2001 through 3/31/2003
 Report Number A-04-03-00022
 Summary Results of Audit**

	<u>Courses</u>	<u>Claimed Amount</u>	<u>Accepted</u>	<u>Questioned</u>	<u>Set-Aside</u>	<u>Total</u>
STATE AND FEDERAL SHARE						
EKU						
Appropriately claimed courses	1,263	\$ 10,867,830	\$ 10,867,830	\$ 0	\$ 0	\$ 10,867,830
Courses inappropriately claimed at enhanced rate	245	3,600,740	2,700,555	900,185	0	3,600,740
Unallowable courses	20	218,078	0	218,078	0	218,078
Courses may have been inappropriately allocated or unallowable	301	3,412,725	0	0	3,412,725	3,412,725
Subtotal	<u>566</u>	<u>\$ 7,231,543</u>	<u>\$ 2,700,555</u>	<u>\$ 1,118,263</u>	<u>\$ 3,412,725</u>	<u>\$ 7,231,543</u>
Total EKU	<u>1,829</u>	<u>\$ 18,099,373</u>	<u>\$ 13,568,385</u>	<u>\$ 1,118,263</u>	<u>\$ 3,412,725</u>	<u>\$ 18,099,373</u>
RMTS		9,397,042	0	0	9,397,042	9,397,042
Other		1,043,845	1,043,845	0	0	1,043,845
Total		<u>\$ 28,540,260</u>	<u>\$ 14,612,230</u>	<u>\$ 1,118,263</u>	<u>\$ 12,809,767</u>	<u>\$ 28,540,260</u>
FEDERAL SHARE						
EKU						
Appropriately claimed courses	1,263	\$ 8,150,873	\$ 8,150,873	\$ 0	\$ 0	\$ 8,150,873
Courses inappropriately claimed at enhanced rate	245	2,700,555	1,800,370	900,185	0	2,700,555
Unallowable courses	20	163,558	0	163,558	0	163,558
Courses may have been inappropriately allocated or unallowable	301	2,559,543	0	0	2,559,543	2,559,543
Subtotal	<u>566</u>	<u>\$ 5,423,656</u>	<u>\$ 1,800,370</u>	<u>\$ 1,063,743</u>	<u>\$ 2,559,543</u>	<u>\$ 5,423,656</u>
Total EKU	<u>1,829</u>	<u>\$ 13,574,529</u>	<u>\$ 9,951,243</u>	<u>\$ 1,063,743</u>	<u>\$ 2,559,543</u>	<u>\$ 13,574,529</u>
RMTS		7,047,782	0	0	7,047,782	7,047,782
Other		782,884	782,884	0	0	782,884
Total		<u>\$ 21,405,195</u>	<u>\$ 10,734,127</u>	<u>\$ 1,063,743</u>	<u>\$ 9,607,325</u>	<u>\$ 21,405,195</u>



**CABINET FOR HEALTH AND FAMILY SERVICES
DEPARTMENT FOR COMMUNITY BASED SERVICES**

Commissioner's Office

COA ACCREDITED AGENCY

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Ernie Fletcher
Governor

Mark D. Birdwhistell
Secretary

March 6, 2006

Report Number: A-04-06-03505 [Actually in Response to: A-04-03-00022]

Ms. Lori S. Pilcher
Regional Inspector General
For Audit Services, Region IV
61 Forsyth Street, S.W., Suite 3T41
Atlanta, Georgia 30303

Dear Ms. Pilcher:

Kentucky's Cabinet for Health and Family Services, Department for Community Based Services (DCBS) appreciates the opportunity to respond to the Office of Inspector General's (OIG) Audit of Kentucky's Title IV-E Training Cost report.

History

Kentucky is confident in its identification of Title IV-E allowable training activities. We have collaborated often with the Administration for Children and Families. Significant attention to detail was employed in the preparation and submission of the state's Title IV-B Plan. In 2001, federal law nor its regulations addressed required cost allocation standards for Title IV-E funds. This led Kentucky and other states to seek consultation from the ACF in its interpretation of allocating costs and the correct application for Title IV-E in the training arena. Following questions from the ACF, DCBS made numerous attempts to clarify and define Kentucky's system of claiming IV-E dollars while making adjustments accordingly to meet the ever changing and confusing demands. Each correspondence or request for information from DCBS and the federal auditors was provided in a timely manner. A complete listing



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KENTUCKY AUDIT OF Title IV-E TRAINING COSTS
MARCH 6, 2006
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CHFS/DCBS Challenge to Audit Report

Reference was made in the DRAFT report that Kentucky was not aware that trainings with a general subject matter were not allowable at the enhanced 75 percent rate and did not develop a process to ensuring training costs were claimed at the appropriate rate. EKU representatives repeatedly asked the federal auditors for clarification of what constituted “general” training since no guidelines exist which clarify this issue. Some of Kentucky’s training courses during the course of the audit period existed of training activities that may have been directed to a blended audience but were deemed to meet the requirements of IV-E allowable training costs. Additionally, DCBS and EKU do have review processes in place to determine claiming at the appropriate rate.

Kentucky’s training program is supported by multiple federal funding streams and state dollars and falls within the federal guidelines for Title IVE funding. EKU does not use a “cost based accounting system”; however, the accounting system used by the University is accepted by government, internal and external auditors. EKU utilizes an accrual accounting system which is universally accepted and utilized by public entities and is approved by Governmental Accounting Standards Board (GASB). In fact, each of the nearly 1829 training titles mentioned in the audit, can be traced to a direct cost or no cost, within the EKU system. In Kentucky our “comprehensive training system” does not lend itself to unit costs. The demand for blended trainings, mixed audiences, and just in time training needs requires flexibility to meet local and regional demands.

Kentucky’s IV-B State Plan is approved and includes updates to the State Training Plan every year. The Training Plan is a part of the IV-B State Plan with completion of the federal “checklists” identifying curriculum for DCBS staff and foster/adoptive parents.

Procedures are and have been in place between DCBS and EKU for appropriate review of IV-E claiming. Adjustments and or refinements were made immediately upon verbal notice from the auditor or the ACF of the need for change (ex: PCWCP contract change, general versus IVE course claimed at 50% rate – computer and sexual harassment course, and discontinuing foster parent picnics).

EKU and DCBS work together continuously to improve the procedures and processes for tracking allowable/unallowable costs associated with all training activities such as:

- Updated all budget codes in the TRIS system;
- Implemented the Training Request form in 2005;
- Implemented the Approval for Training Credit Form in 2004;
- Implemented the Approval for Training Credit Form (including FAP and R & C staff) in Fall of 2005;
- Improved electronic communication between UTC budget office and TRIS system;
- Began preparing yearly budget reconciliation reports, for reconciling projected versus actual percentages for cross program training funding streams;
- Training course catalog for statewide scheduled training events aligns with the IVB state plan documentation;
- Differentiate computer based and classroom based training courses for costs versus no costs allocations; and

➤ Development of FMAS (Financial Management Analysis System).

In its report, the OIG states the following: *“Two hundred forty-five courses related to general subject matter were claimed at the enhanced 75-percent rate instead of the required 50-percent rate. We recalculated the amount claimed for these 245 courses and found that part of the Federal share of \$2.7 million was overstated. As a result, we accepted \$1.8 million of the amount the State claimed for Federal reimbursement and questioned the balance of \$900,185.”*

The report also disclosed that OIG *“computed the average Title IV-E costs per hour by dividing Eastern Kentucky University’s (EKU) Title IV-E training costs by the total EKU Title IV-E training hours and applied the average cost per training hour to quantify costs that were accepted, questioned, or set-aside.”*

The method used to quantify costs makes the following assumptions about the population of training events that were considered:

- The population was uniformly consistent across the board.
- An un-weighted average would accurately reflect the cost per hour of training for all 1829 trainings delivered by EKU in conjunction with CHFS.

It is Kentucky’s opinion that this method, when used to calculate training costs for the 245 aforementioned trainings, yields biased, highly skewed results and fails to accurately portray the financial discrepancy caused by EKU/CHFS claiming the enhanced versus the standard rate. A cursory study of the reported financial errors was reviewed and a different methodology was applied, which realizes that the population of trainings is not consistent enough to analyze with a uniformly dense cost calculation.

- Instead, it is more appropriate to divide the population into subsets that are more closely related based on cost. Those subsets are:
- Computer/web-based trainings
- Classroom-based trainings
- Face-to-face instructional meetings
- Regional trainings

Briefly, we’ll discuss the fiscal differences amongst these subsets.

Computer/Video/Web-Based Trainings require a greater deal of work to create initially than the other subsets. This increased labor and effort results in a higher initial cost for the training to be produced. However, once completed, the training is offered over the medium of the web or a

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computer interface and can therefore be disseminated at a minimal cost as it avoids the need for a trainer, supplies to deliver the information, travel expenses for participants to travel to a common training site, and for lodging arrangements. In effect, once completed, the cost for computer/web-based trainings is almost negligible.

Classroom-Based Trainings are the least cost effective of the subsets of trainings identified. While they require less initial financial and labor investment, they require a much larger share of funding to maintain and deliver. These trainings almost always incur costs for training materials, trainer and participant lodging and travel costs.

Face-to-Face Instructional Meetings are less cost-prohibitive. These trainings are designed for a small number of participants and are commonly delivered regionally to reduce travel and lodging costs. Supplies are usually minimal for this group.

Regional Trainings are also inexpensive to facilitate because they usually require minimal travel (trainings usually take place within 40 miles of trainer/participant's workstation and lodging costs are not incurred). ECU employees (i.e. Regional Training Coordinators) may create and deliver the training and materials while supplies for these trainings are usually provided by regional offices. Typically the only cost associated with these trainings is the marginal time spent by ECU employees to coordinate the training and process training documentation to track the information with ECU's Training Record Information System (TRIS) (this cost is diminished further by TRIS' ability to automate much of the process beyond data entry).

Exceptions to Audit Findings (all amounts are federal share only)

After a review of the 245 identified courses that inappropriately charged the enhanced 75-percent rate rather than the allowable 50-percent rate, 106 courses were identified as having either marginal or no cost (personnel to process training record documentation or set up training) and 139 were identified as having some cost. By correcting the training cost as calculated by OIG for those 106, we see a reduction of the disallowed cost by **\$389,468**.

The balance of 139 trainings moved to the "General" column were further reviewed and analyzed. Upon inspection of their learning objectives and subject matter¹ of these trainings, 20 were identified that should be counted as allowable. In fact, 18 of the 20 were left in the allowable column when they were attended by foster parents. (See attached worksheet "Trainings That Were Marked as General But Should Be Allowable".) The other two, we can only assume, were no more closely reviewed than by their name during the audit. Clearly, if their subject matter and learning objectives had been further reviewed, these trainings would have been appropriated to the allowable column. This adjustment translated to a difference of 239 training hours, resulting in a reduction in disallowed cost of **\$122,806**.

¹ the method that we consistently use for determining funding sources as reported in a memo to Eugene Roth on January 8, 2003

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Finally, the trainings that were determined to be unallowable were further evaluated. In all, 20 courses were deemed unallowable at a total of 425.49 training hours. While we concede that a portion of those trainings were unallowable, we do not agree with all 20. In all, we believe that a closer inspection of the subject matter and learning objectives would yield an allocation of the training hours as follows: 122.15 Allowable Hours, 76.50 General Hours, and 226.84 Unallowable Hours. This reallocation would translate to an additional **\$46,954.50** in allowable trainings, **\$19,604.50** for general trainings, and an unallowable amount of **\$96,999** for which we concur with federal auditors. All together, the reallocation of the unallowable training hours translates to a reduction of disallowed cost by **\$66,559** as calculated in the Audit report. (See attachment "Trainings Marked as Unallowable in Audit Report.")

Closing

DCBS concurs with portions of the first recommendation in the auditor's report. DCBS will adjust the next quarterly report for **\$484,910** of unallowable federal cost. (See attachment "KY CHFS/DCBS Audit Adjustment.")

In response to the second recommendation, DCBS is most agreeable to working with representatives of the ACF to further a true accounting of the training costs as they apply to individual training events/courses.

DCBS will continually work with the ACF to implement and maintain the third recommendation.

Sincerely,

Renee L. Close
Director

Attachments

cc: Mark Birdwhistell, Secretary
Dr. Eugene Foster, Undersecretary
Tom Emberton, Jr., Commissioner
File

Trainings Marked as Unallowable in Audit Report

Cost Per Training Hour as determined by Auditors*: \$ 512.53

*\$218,078 overstatement for 425.49 hours as outlined on page ii of Audit Report. $\$218078/425.49 = \512.53

Training Hour Allocation as indicated in Audit Report			
Allowable	General	Set-Aside	Unallowable
			1.50
			12.00
			23.65
			3.00
			3.50
			156.70
			1.50
			3.00
			7.50
			1.00
			75.50
			90.00
			3.07
			1.43
			34.00
			3.00
			0.38
			0.76
			3.00
			1.00
-	-	-	425.49
\$ -	\$ -	\$ -	\$ 218,076.39
			\$ 218,076.39

Revised Training Hour Allocation			
Allowable	General	Set-Aside	Unallowable
1.50			
			12.00
23.65			
			3.00
			3.50
			156.70
			1.50
			3.00
			7.50
	1.00		
	75.50		
90.00			
			3.07
			1.43
			34.00
3.00			
			0.38
			0.76
3.00			
1.00			
122.15	76.50	-	226.84
# \$ 62,605.54	\$ 39,208.55	\$ -	\$ 116,262.31
			\$ 218,076.39

Total
425.49

\$ 101,814.08

Completed March 3, 2006

KY CHFS/DCBS Audit Adjustment

	General	Unallowable	Total
OIG Disallowance			
566 Courses Disallowed			
a > 245 Courses 75% vs 50%	900,185		
b > 20 Courses Not Allowable		163,558	
c > 301 Courses Set Aside			
	<hr/>	<hr/>	<hr/>
	900,185	163,558	1,063,743
a > Courses with no Cost	389,468		389,468
b > Misclassified by Auditors	122,806	66,559	189,365
	<hr/>	<hr/>	<hr/>
KY's Disputed Adjustments	512,274	66,559	578,833
KY's Adjusted Disallowance	387,911	96,999	484,910

All amounts are Federal \$\$