

**Memorandum**

Date **AUG 6 1996**

From June Gibbs Brown
Inspector General *June G Brown*

Subject Audit of Training Contract **Costs Claimed** for Federal Reimbursement by the California Department of Social Services (A-09-95-00056)

To Mary Jo Bane
Assistant Secretary for
Children and Families .

This memorandum is to alert you to the issuance on August 9, 1996 of our final audit report on training costs claimed for Federal reimbursement by the California Department of Social Services. A copy is attached.

The objective of our audit was to evaluate the allowability and allocability of certain costs claimed by the State of California, Department of Social Services (State agency) for selected training contracts under criteria set forth in applicable Federal regulations and policies. Our audit, which is part of a nationwide review involving several States, was initiated based on prior audits by the Office of Inspector General disclosing significant problems in claiming Federal reimbursement for training contract costs. Our audit was limited to the types of issues identified in the audits of the State of New York, and covered the period April 1, 1992 through March 31, 1995.

We found that for a large statewide social work training contract, the State agency had charged all of the costs incurred to the Federal Foster Care program. This was contrary to the Office of Management and Budget Circular A-87 which requires that:

"A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. . . ."

The circular further states that:

"A cost is allocable to a particular cost objective to the extent of benefits received by such objective. "

The State's practice was also contrary to the Administration of Children and Families (ACF) policy which required that such costs be allocated between the

Page 2 - Mary Jo Bane

Federal and State Foster Care programs in an equitable manner. Our audit disclosed about \$4 million (Federal share \$3 million) claimed for Federal reimbursement which should have been allocated to the State program for which Federal financial participation is not available. We are recommending that the State follow prescribed cost allocation procedures, and refund the \$3 million to the Federal Government.

Our audit also disclosed that the State claimed \$1.7 million (Federal share \$0.9 million) of third party in-kind matching costs under the Federal Foster Care program although the third party costs were specifically unallowable for this purpose under Federal requirements. However, State agency officials provided evidence that they had obtained approval from ACF to do this, even though the approval was not in accordance with ACF policy. Of the \$1.7 million, we found that \$0.4 million (\$0.2 million Federal share) was also unallowable because of errors and other reasons, and we are recommending a refund of the \$0.2 million. We are setting aside the remaining \$1.3 million (Federal share \$0.7 million) for resolution between ACF and the State.

The State agency, in response to a draft report, generally concurred with recommendations for procedural improvements but did not agree with the recommendations for refunds to the Federal Government.

The Region IX ACF will coordinate with the ACF Central Office in resolving the \$1.3 million set aside with the State.

If you have any questions, please call 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

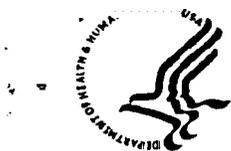
**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF TRAINING CONTRACT COSTS
CLAIMED FOR FEDERAL
REIMBURSEMENT BY THE
CALIFORNIA
DEPARTMENT OF SOCIAL SERVICES**



JUNE GIBBS BROWN
Inspector General

AUGUST 1996
CIN: A-09-95-00056



Region IX
Office of Audit Services
50 United Nations Plaza
San Francisco, CA 94102

CIN: A-09-95 -00056

Eloise Anderson, Director
California Department of Social Services
744 P Street, Mail Station 1711
Sacramento, California 95814

Dear Ms. Anderson:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services (OAS) report entitled "Audit of Training Contract Costs Claimed for Federal Reimbursement by the California Department of Social Services." A copy of this report will be forwarded to the **action** official noted below for her **review** and any **action** deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. 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.

In accordance with the principles of the Freedom of Information Act (Public Law 90-23), OIG, OAS 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 45 CFR Part 5.)

To facilitate identification, please refer to Common Identification Number A-09-95-00056 in all correspondence relating to this report.

Sincerely,

Lawrence Frelot
Regional Inspector General
for Audit Services

Enclosures

Direct Reply to HHS Action Official:

Sharon M. Fujii, Regional Administrator
Administration for Children and Families, HHS
50 United Nations Plaza, Room 351
San Francisco, CA 94102

EXECUTIVE SUMMARY

BACKGROUND

This report presents the results of our audit of training contract costs claimed for Federal reimbursement by the California Department of Social Services (State) under titles IV-A (Aid to Families with Dependent Children) and IV-E (Foster Care) of the Social Security Act. Training is authorized under these programs to improve the knowledge and skills of social services and other personnel. In California the State is responsible for the overall supervision of training programs involving titles IV-A and IV-E. The 58 counties in California provide administration at the local level.

OBJECTIVE

The objective of our audit was to evaluate the allowability and allocability of certain selected costs claimed by the State for the training contracts included in our audit, as provided for under applicable Federal regulations and policies. Our audit, which is part of a nationwide review involving several States, was limited to specific training contract cost issues identified in prior audits by the Office of Inspector General, Office of Audit Services, in the State of New York.- We reviewed the issues for five training contracts. in California - one awarded by the State and four awarded by counties. The specific cost issues included in our audit are shown on page 2 of this report under Scope.

The audit covered the period April 1, 1992 through March 31, 1995. Total costs claimed by the State for the five contracts for that period totaled \$31.1 million (Federal share \$19.8 million).

SUMMARY OF FINDINGS

Based on our audit, we are questioning \$4.4 million (Federal share \$3.2 million) and setting aside \$1.3 million (Federal share \$0.7 million) for resolution by the Administration for Children and Families (ACF). The costs questioned and set aside relate to the following issues.

Allocating Costs Between Programs

On one of the five contracts, which was awarded at the State level, the State charged all of the costs to the Federal Foster Care program. This was contrary to ACF policy that required allocating training contract costs between the Federal and State foster care programs. Costs for the remaining four contracts, which were awarded at the county level, were being properly allocated. The State requested approval from ACF in June 1992 to charge all foster care training costs to the Federal Foster Care program. However, there was no evidence that the State's request was approved. We identified \$4 million (Federal share \$3 million) that was charged to the Federal program but was allocable to the State program. We are recommending that the State follow required cost allocation procedures, and refund the \$3 million. (See recommendations on page 7.)

claiming Third Party In-Kind Contributions

For two of the contracts reviewed, the State claimed \$1.7 million (Federal share \$0.9 million) of third party in-kind contributions as matching costs **under title IV-E**, which is contrary to Federal requirements. Approval was obtained from ACF to claim third party in-kind contributions even though this approval contradicted ACF policy. Of the \$1.7 million, we determined that \$0.4 million was unallowable for other reasons such as applying the wrong indirect cost rate. We are questioning the \$0.4 million (\$0.2 million Federal share) and setting aside the remaining \$1.3 million (Federal share \$0.7 million) for resolution between ACF and the State. (See recommendations on Page 14.)

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APPENDIX A- Letter Transmitting State Comments to Draft Report

APPENDIX B- Index to State Response

APPENDIX C -Narrative of State Response

APPENDIX D - Index of Exhibits Attached to State Response

INTRODUCTION

BACKGROUND

The California Department of Social Services (State) has overall responsibility for ensuring that personnel at the State and county level have the training necessary to administer its various social service programs. To carry out its responsibilities, the State provides general oversight of the training program, including the issuance of regulations related to staff development to county **welfare** departments. It also provides training programs and consultation to county staff development **officers** located in the 58 counties in California.

A substantial portion of the training is obtained by the State and counties under training contracts with outside organizations, primarily universities. This report includes training contract costs claimed for Federal reimbursement by the State under titles IV-A (Aid to Families with Dependent Children) and IV-E (Foster Care) of the Social Security Act.

The Federal Government participates in the State's costs of administering the various **Federal welfare** programs. The Federal financial participation (**FFP**) rate for training provided under title IV-A is 50 percent. The FFP rate for title IV-E is 75 percent. As a condition of receiving FFP, the State is required to operate its programs in accordance with federally-approved State plans and other applicable Federal requirements. .

In our audit, we reviewed five contracts which **totalled** approximately \$31.1 million (Federal share \$19.8 million) in training costs claimed for FFP for the period audited. The five contracts included:

- ▶ A contract between the State and the University of California at Berkeley (UC Berkeley) providing for a statewide graduate program of study leading to Master in Social Work degrees and subsequent employment as social workers in foster care at the county welfare department level. This contract involved ten graduate schools of social work located throughout the State. Under this contract, the State claimed \$16.3 million for the period audited.
- ▶ Two contracts between (1) Los Angeles County Department of Children and Family Services (LA County) and the California State University, Long Beach (CSULB), which subcontracted with the University of Southern California (USC); and (2) LA County and the University of California, Los Angeles (UCLA). The contracts provided for graduate study leading to Master of Social Work degrees, and staff training for employees of LA County. For these two contracts, the State claimed \$13.6 million for the period included in the audit, including \$11.2 million for the CSULB contract and \$2.4 million for the UCLA contract.

- ▶ Two contracts providing **a variety** of training programs for county welfare staff. These contracts were between Los Angeles and Sacramento **counties and the University of California at Davis**. For the period audited, the State claimed **\$1.2 million** for these two contracts.

SCOPE

We performed our audit in accordance with generally accepted government auditing standards. Our objective was **to** determine if **costs** claimed for FFP for the training contracts included in our audit were allowable for Federal reimbursement under Federal regulations and policies. The audit was limited **to seven** training **cost issues** previously identified in the State of New York in prior audits by the OIG:

- o The allocation of training costs to federally-supported programs based on estimated attendance data rather than actual training provided.
- o The allocation of training costs between federally participating and nonparticipating programs.
- o The allocation of administrative **costs** related **to** training activities between Federal and nonfederal programs.
- o Claims for third party contributions as the State's required matching share of training costs.
- o Documentation and support for matching costs claimed for FFP.
- o Credits to Federal programs for revenue received from training activities.
- o Limitation of claims for Federal reimbursement to allowable training activities.

Our audit included five training **contracts that were** selected based on information obtained during the survey phase of our audit. The State's records did not readily **identify** all training contracts in effect at the State and local level. Accordingly, we relied on annual training plans provided by counties to the State, and input provided during discussions with State officials, to identify training contracts **in effect during the audit period**. The contracts selected for audit appeared representative of the State training efforts for the titles IV-A and IV-E programs; however, we were unable to obtain a complete list of training contracts.

In our survey of the five contracts, we found evidence of problems involving unallowable costs on the State's contract with UC Berkeley and the LA County contract with CSULB. For these two contracts, we selected a 3-year period for audit: April 1, 1992 through March 31, 1995.

The State's contract with UC Berkeley involved ten graduate schools of social work, and our audit of the contract was generally limited to: (i) a review of the State's allocation of costs between the title IV-E and other programs, and (ii) matching costs provided by two private schools to meet the State's cost sharing requirement. However, our work at USC was expanded to include direct and indirect costs claimed because of prior problems identified by the Los Angeles County Auditor.

The LA County's contracts with CSULB and UCLA involved three graduate schools of social work and our audit of the contracts was limited to the cost issues cited above. We expanded our work at USC to include direct and indirect costs because of prior problems noted by the Los Angeles County Auditor.

The audit field work was performed at the following organizations:

- ▶ California Department of Social Services in Sacramento;
- ▶ Sacramento County Department of Human Assistance;
- ▶ Los Angeles County Department of Children and Family Services;
- ▶ Los Angeles County Department of Public Social Services;
- ▶ University of California at Davis;
- ▶ University of California at Berkeley; and
- ▶ University of Southern California in Los Angeles.

We also met with and reviewed relevant reports and working papers of the Los Angeles County Auditor. The audit field work was performed during the period January through October 1995.

FINDINGS AND RECOMMENDATIONS

For three of the five training contracts reviewed, no problems were identified. However, for the State contract with UC Berkeley (amount claimed: \$16.3 million) and the LA County contract with CSULB (amount claimed: \$11.2 million), we identified overclaimed and unallowable costs, as well as other costs for which we have not expressed an opinion as to their allowability and have set aside for resolution by ACF. The identified costs related to two of the seven cost issues included in our scope of audit: (i) the allocation of costs between federally participating and nonparticipating programs, and (ii) claims for third party in-kind contributions to meet the State's matching requirements. The following table summarizes the costs questioned and set aside.

	Total costs	Federal Share
Costs Questioned		
Allocation of Costs Between Programs	\$4,007,083	\$3,005,312
Third Party In-kind Contributions (Incorrect Charges)	371,779	203,445
Total Costs Questioned	\$4,378,862	\$3,208,757
Costs Set Aside		
Third Party In-kind Contributions (Remaining Matching Costs)	1,333,690	725,960
Total Costs Questioned or Set Aside	\$5,712,552	\$3,934,717

We recommend that the State refund to the Federal Government the costs questioned of **\$3,208,757**, and that the State coordinate with ACF on the resolution of the \$725,960 (Federal share) of costs set aside.

In a letter dated May 24, 1996, the State responded to the findings and recommendations in our draft audit report. Based on the State's response, we made revisions affecting the amounts questioned or set aside for resolution by ACF. With respect to this final report, the State disagreed with the recommended refund of costs questioned, and agreed to work with ACF on the resolution of the costs set aside.

Along with the above referenced letter, the State included 3 attachments and 11 exhibits in support of its position on the draft audit report. Attachment I represents an index of the State's response, and Attachment II is a narrative summary of the response. Attachment III is an index of the 11 exhibits. We have included the State's letter and the three attachments as Appendixes A through D of this audit report. Because of the large volume of exhibits, we have not included them with this report. However, the State has previously provided a copy of its entire response to the report directly to ACF, and we will provide copies of the 11 exhibits to other interested parties upon request.

ALLOCATION OF COSTS BETWEEN PROGRAMS

The State has not consistently followed required procedures for allocating training contract costs between the Federal and State Foster Care programs. Federal policy requires that training costs must be allocated to benefiting programs in such a manner as to assure that each participating program is charged its proportionate share of the costs. The counties included in our audit were allocating training contract costs between the Federal and State Foster Care programs in the prescribed manner. However, costs related to the State contract were not allocated between the two programs; instead, they were charged entirely to the Federal Foster Care program. As a result, costs claimed for Federal reimbursement were overstated by \$4,007,083 (Federal share \$3,005,312).

Federal and State Requirements for Allocating Costs

Office of Management and Budget (OMB) Circular A-87, Attachment A, Section J. 1, Cost Allocation Plan, 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 charges.”

In addition, Section C.2.a of the Circular **states** that:

“A cost is allocable **to a particular cost objective to the** extent of benefits received by such objective.”

The Administration for Children, Youth, and Families (predecessor **to** ACF) made a policy announcement (No. ACYF-PA-90-0 1) on June 14, 1990 which, consistent with OMB Circular A-87, provided:

“All 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 allocations may be determined by case count of title IV-E eligible children in relation to all children in foster care

under the responsibility of the State title IV-E/IV-B agency or on some other equitable basis. ”

The State’s Federally-approved **cost** allocation plan is consistent with this policy announcement and requires that training costs be 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 has issued instructions to counties requiring that foster care costs, including training contract costs, be allocated between the Federal and State Foster Care programs on the basis of child caseload statistics.

County and State Allocations

We found that Los Angeles and Sacramento counties were allocating foster care costs between the Federal and State programs in accordance with Federal requirements and State instructions. However, the State did not allocate any of the costs of the UC Berkeley contract 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 which expressed the State’s 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 the Federal and State programs. However, our 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 (Federal share \$12,251,372) of costs related **to the State** contract with UC Berkeley. This represented 100 percent of the contract costs. The statewide ratios of State foster care caseload to total foster care caseload ranged from 22 percent to 27 percent on a quarterly basis. By applying these ratios to the costs claimed in the applicable quarter, we determined that \$4,007,083 of costs should have been allocated to the State Foster Care program and, therefore, represented an **overclaim** to the Federal Foster Care program. The Federal share of the **overclaimed** costs is \$3,005,312.

Our audit included **costs** claimed by the State through the period ended March 31, 1995. Our review indicated that the State continued to charge all UC Berkeley contract costs to the Federal Foster Care program in periods subsequent to our audit period. Accordingly, in addition to **refunding** the costs included in our audit, the State should make adjustments for such unallowable costs claimed in subsequent periods.

Recommendations

We recommend that the State:

1. Initiate action to ensure that all foster care training contract costs are allocated to both the Federal and State Foster Care programs in accordance with Federal policy, the State's approved cost allocation plan, and written State policy.
2. Refund to the Federal Government the \$3,005,312 identified in our audit, 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

The State did not concur with our recommendations. In the narrative comments included **with the State's May 24, 1996** written response to our draft report (see Appendix C), the State concurred with recommendation number 1 for those training contracts for which special finding approval was not obtained. However, the State did not concur with the recommended refund on the basis that the ACF approval for funding this contract allowed for the costs to be directly charged to the Federal Foster Care program.

In support of that position, the State specifically cited a December 24, 1992 letter from a Region IX ACF **official** which approved the CALSWEC project. The State cited a portion of the letter which stated that the application for ACF approval of the 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 provisions in the ACF letter which stated that "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 that "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 another letter dated November 12, 1992 which the State sent to ACF. The State maintained that the letter showed that all parties made every effort **to** insure 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** OMB and ACF requirements cited in our 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 (cited in **this** audit report) to waive the Federal policy which requires the allocation of training **costs** between the Federal and State Foster Care programs. Further, *as* noted in this audit report, 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 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 our review of the contract and related correspondence and other documentation, we found nothing to address whether costs were to be directly charged or allocated on some basis.

We agree that the budget narrative for the contract provided appropriate linkage to the title IV-E program, as indicated in the State's response to our draft report. However, the persons who received the training provided services to persons working on both the Federal Foster Care program and the State Foster Care program. As we stated in **our** finding, these training costs benefit both Federal and State Foster Care programs and are required to be allocated to both programs by Federal ACF policy, OMB Circular A-87, the State's cost allocation plan 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.

THIRD PARTY IN-KIND CONTRIBUTIONS

The State claimed third party in-kind contributions as matching costs under the Federal Foster Care program which are specifically defined by Federal policy as unallowable for meeting the State's **cost** sharing requirements for the program. However, **the** State obtained approval from ACF **to claim** the third party in-kind contributions **even** though the approval contradicted ACF policy. During the period April 1, 1992 through March 31, 1995, the State claimed \$1,705,469 (Federal share \$929,405) of third party in-kind contributions for FFP. The contributions were claimed under two of the contracts included in our audit:

- ▶ The contract between the LA County and CSULB, and
- ▶ The contract between the State and UC Berkeley.

In our audit, we determined that, although the State obtained approval to claim the third party contributions, \$371,779 (Federal share \$203,445) of the amount claimed was unallowable because of errors and other reasons. We are recommending that the State refund the \$203,445 to the Federal Government. Further, because the ACF approval was not consistent with its policy on third party contributions, we are setting aside the remaining \$1,333,690 (Federal share \$725,960) for resolution by ACF.

Federal Criteria

On October 22, 1984, the Administration for Children, Youth and Families (predecessor to 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.

Contributions Claimed, **Questioned**, and **Set** Aside

Although Federal policy defined third party in-kind contributions as unallowable for meeting State **cost** sharing requirements, the State obtained approval from ACF to claim such costs and did so on two of the five contracts included in this audit. Of the amount claimed, our audit disclosed that a significant portion of the **amounts** claimed was overstated because of *errors* and other reasons, and we have questioned the overstated amounts.

In light of the inconsistency between the ACF approval and ACF **written** policies defining such costs as unallowable for matching purposes, we are setting aside the balance **that** would otherwise be considered allowable (**amounts** claimed less costs questioned) for resolution between ACF and State officials. A breakdown, by contract, of the amounts claimed, questioned, and set aside is depicted in the following table.

Contract	Amount Claimed	costs Questioned	Balance Set Aside
LA County with CSULB (Federal Share)	\$1,324,052 (71 1,092)	\$235,103 (126,264)	\$1,088,949 (584,828)
State with UC Berkeley (Federal Share)	381,417 (218,313)	136,676 (77,181)	244,741 (141,132)
Totals (Federal Share)	\$1,705,469 (929,405)	\$371,779 (203,445)	\$1,333,690 (725,960)

LA county Contract with CSULB

Provisions for In-kind Contributions. Under this contract, LA County contracted with CSULB to provide training services. The CSULB provided some of the required training directly with its own faculty, and subcontracted with the University of Southern California (USC), a private university, for 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. As stated earlier in this report, the Federal Government reimburses the States for 75 percent of allowable training costs for the program, and the States are required to provide matching funds for the remaining 25 percent.

The CSULB is a State university, and the contributions made directly by CSULB were considered acceptable for matching purposes since State funds were used. However, USC is a private school and is 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 to the Los Angeles County Board of Supervisors dated September 17, 1991, the director of Department of Children’s Services (DCS) requested approval of the Inter-University Training Consortium Agreement, which is the contract between LA County and CSULB (September 17, 1991 was the effective date of the contract). 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, respectively, USC 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 which indicated that PIQ-84-6 was considered in approving USC’s request. The Federal policy (PIQ-84-6) contains no provisions allowing contributions through the use of subcontracts such as the arrangement with USC.

Costs Questioned. In our audit, we determined that \$235,103 of the \$1,324,052 in third party in-kind contributions related to the USC subcontract were unallowable because of errors and other reasons. The unallowable costs were previously identified by the Los Angeles County Auditor in a prior audit of CSULB's subcontract with USC.

In response to the audit by the Los Angeles County Auditor, USC agreed to provide additional training for LA County in 1995 at no additional cost, in lieu of repaying the unallowable amounts claimed and received. In our audit, we have accepted a value for the additional training as an off-set against the unallowable costs.

The amounts questioned and the credit allowed by the additional training provided are shown in the following table.

Unallowable Costs	Total	Federal Share
Use of Inappropriate Indirect Cost Rate	\$245,218	\$131,696
Indirect Cost on Equipment and Space Rental	31,216	16,765
Pre-agreement and Other Unallowable Costs	38,480	20,666
Total Unallowable Costs	\$314,914	\$169,127
Credit for Additional Training Provided in 1995	79,811	42,863
Net Unallowable Costs	\$235,103	\$126,264

Use of Inappropriate Indirect Cost Rate. The USC has several indirect **cost** rates that it negotiated with the Department of Health and Human Services, Division of Cost Allocation. For the subcontract it had with CSULB, USC should have used the rate applicable for instruction. However, for the first 2 years of the subcontract, the rate for applied research, which was much higher, was used in error. This resulted in an **overclaim** of \$245,218 (\$58,593 for FY 1992 and \$186,625 for FY 1993). The rates were as follows:

<u>Applicable to:</u>	<u>FY 1992</u>	<u>FY 1993</u>
Applied research rate	60.5 percent	62.5 percent
Instruction rate	<u>47.6 percent</u>	<u>35.0 percent</u>
Difference	<u>12.9 percent</u>	<u>27.5 Percent</u>

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 Los Angeles County Auditor.

Pre-agreement and Other Unallowable Costs. The Los Angeles County Auditor questioned \$38,480, consisting of \$38,409 of **pre-agreement** costs and \$71 of costs unrelated to the contract. The pre-agreement costs questioned 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 A-21.

Indirect Costs on Equipment and Space Rental. The Los Angeles County Auditor questioned \$31,216 because USC inappropriately applied the indirect cost rate to equipment and space rental costs incurred on the project. Under the principles of OMB Circular A-21, the indirect cost rate should not be applied to equipment and space rental costs.

Credit for Additional Training Provided in 1995. As a result of the **costs** questioned by the Los Angeles County Auditor, USC proposed to provide additional training to LA County in 1995 at no cost to repay the unallowable costs. The value of the additional training USC provided was determined by USC to be \$324,205. However, in our audit we have accepted a value of \$79,811, or \$244,394 less, as described below.

The value of the additional training provided was estimated by USC based on the published price of a course offered by an outside training firm - not on costs incurred by USC. Officials of USC advised us 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, for a total of \$324,205. The price used was taken from a brochure published by a private firm for a 1-day course titled, "Understanding and Analyzing Financial Statements for Attorneys." This course was not actually provided to the attendees, and was used by USC only to establish an estimate of the cost of training.

In our audit, we contacted the company whose course was used by USC as a basis for the \$295 per person. According to the company, lower fees were available for providing in-house training programs. A company official quoted us a price of \$100 per student up to 45 students, and \$50 per additional student, if the organization receiving the training provided the facilities.

We contacted the USC conference center where the training was held and obtained the charge for use of the facility, including refreshments and parking.

In our audit, we determined that the number of persons actually attending the training was 929, rather than the 1,099 reflected on the USC invoices. Using **this** number, we determined the value of the training using the prices quoted **to us** by the same company used by USC in its estimate and the prices quoted by the USC conference center. Using that information, we have allowed a credit of \$79,811 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 - LA County. Under the LA County contract with CSULB, we are setting 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 does not allow third party contributions for meeting the State's matching requirements. We are recommending that the State coordinate with ACF for resolving this issue. The Federal share of the \$1,088,949 is \$584,828.

State Contract with UC Berkeley

Under this contract, 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 10 additional universities for additional training, including 8 State universities and 2 private universities (USC and Loma Linda University).

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 we stated previously, there are no provisions in the Federal policy which would make third party in-kind contributions allowable by using a subcontract.

The State claimed \$381,417 of third party in-kind contributions from USC and Loma Linda University as State matching **costs** under the UC Berkeley contract during the period October, 1, 1993 through March 31, 1995. Of this **amount**, we are questioning \$136,676 and are setting aside \$244,741 for resolution between ACF and the State.

Indirect Costs Applied to Student Stipends. We determined that \$136,676 (Federal share \$77, 181) was unallowable due to inappropriately **applying** the indirect cost rate to student stipends.

The USC inappropriately applied the indirect cost rate to student stipends, which were a significant portion (68 percent) of the direct costs charged to the contract. USC applied its 35 percent indirect **cost** rate to the \$403,875 of stipends that were claimed as direct **costs** under the contract. Although the **amount** derived from this calculation is \$141,356, USC limited the amount claimed **to \$136,676** because this was the balance needed **to arrive at** the total agreed on 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 exclusion was required by OMB Circular A-21. Therefore, USC should not have applied the indirect **cost** rate to stipends in determining the indirect costs to be charged to the UC Berkeley contract.

Balance of Third Party In-Kind Contributions Set Aside - UC Berkeley. For the State contract with UC Berkeley, we are setting aside the balance of \$244,741 (\$381,417 - **\$136,676**) for resolution between ACF and the State because of the inconsistency between the Region IX ACF approval and national ACF policy which does not allow third party contributions for meeting the State's matching requirements. We are recommending that the State coordinate with ACF for resolving this issue. The Federal share of the \$244,741 is \$141,132.

Costs Claimed in Subsequent Periods. Our audit included costs claimed by the State through the period ended March 31, 1995. Our review indicated that the State continued to claim the above types of unallowable costs in periods subsequent to our audit period. Accordingly, in addition to refunding the costs included in our audit, the State should make adjustments for such unallowable costs claimed in subsequent periods.

Recommendations

We recommend that the State:

1. **Refund** to the Federal Government the \$203,445 (\$126,264 + \$77,181) for the Federal share of costs questioned, and make adjustments for any unallowable costs claimed subsequent to March 31, 1995.
2. Coordinate with ACF on the resolution of \$1,333,690 (Federal share \$725,960) of set aside costs.

State Comments

The State disagreed with the recommendation for a **refund**, which includes \$126,264 for the LA County contract with CSULB and the \$77,181 for the State contract with UC Berkeley.

Credit for Additional Training. Although the State agreed with our determination of unallowable costs at CSULB, it maintained that the value of the additional training provided by USC more than offset the questioned costs and disagreed with our valuation of \$42,863 (Federal share) which we 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 that it

used **to** establish a price for the class it conducted. The **State asserted** that the Los Angeles 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 employs research assistants. In both instances, the students are considered **to be** paid workers by USC. The USC contends that student employee compensation, like any other compensation, is included in the direct cost base and is consistent with USC's indirect **cost** agreement and the way the Public Health Service (PHS) regulations **treat** 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** our valuation of the credit given for the training provided by USC was unreasonably low because we 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 our determination of comparable value, we used the same class, and the same outside training firm, cited by USC in its estimate of **the** value of the training. The difference resulted from our determination of the lower cost available for providing in-house training for large numbers of attendees per session.

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

After consideration of the information provided in the State's response, we consider our estimate of the value of the training to be appropriate and have offset this amount against the unallowable costs claimed.

Indirect Costs Applied to Student Stipends. The stipends 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, we found, as we stated in our report, 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 are not relevant to this finding as the costs are not being claimed under a PHS grant. Further, those regulations do not support the State's position on this issue in that they prohibit paying indirect costs on fellowships or similar awards where the PHS **funding** is in the form of fixed amounts.

Costs Set Aside for ACF Resolution. Although the State agreed to work with ACF to resolve the \$725,960 (Federal share) of set aside costs related to unallowable third party in-kind contributions, we have the following comments on this issue. Subsequent to issuance of our draft report, we found instructions which the State issued to the counties on July 10, 1991 (prior to LA County's issuance of the training contract to CSULB in September 1991) which show that the State and LA County were fully aware **that** third party in-kind contributions were unallowable. Specifically the instruction stated: "A private IHE (institution of higher learning) is not permitted to contribute the CWD's (county welfare department's) share of **costs**..." (parenthetical definitions of acronyms added).

APPENDIXES

DEPARTMENT OF SOCIAL SERVICES
744 p Street, Sacramento, CA 95814



May 24, 1996

Mr. Lawrence Frelot
Regional Inspector General
for Audit Services
Department of Health and
Human Services, Region IX
50 United Nations Plaza
San Francisco, California 94102

Dear Mr. Frelot:

SUBJECT: "AUDIT OF TRAINING CONTRACT COSTS CLAIMED FOR FEDERAL REIMBURSEMENT BY THE CALIFORNIA STATE DEPARTMENT OF SOCIAL SERVICES/A-09-95 -00056"

This is in response to your March 11, 1996 request for the California Department of Social Services (CDSS) comments regarding the findings and recommendations contained in the above named draft audit report. Thank you for granting additional time to submit our response. In the preparation of our response, we followed the same order that the findings are listed in the report "Table of Contents" (see Crosswalk in Attachment 1). Detailed comments are contained in Attachment II and supporting documentation for our comments are contained in Attachment III (Exhibits A through K).

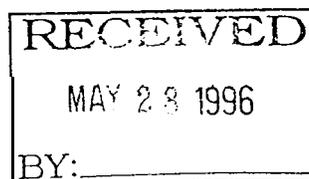
If you have any questions regarding our response, please call me at (916) 657-2614 or have your staff contact Wesley A. Beers, Chief, Children's Services Branch at (916) 445-2777.

Sincerely,


MARJORIE KELLY
Deputy Director
Children and Family Services Division

Attachments

c: J. Len
L. Guin
N. Dickinson
G. Guilden



CROSSWALK FROM STATE COMMENTS TO REPORT CONTENTS
A-09 -95- 0056 DRAFT REPORT

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Following is the State's response to audit findings and recommendations contained in the Department of Health and Human Services, Office of Inspector General (OIG) draft report entitled "AUDIT OF TRAINING CONTRACT COSTS CLAIMED FOR FEDERAL REIMBURSEMENT BY THE CALIFORNIA STATE DEPARTMENT OF SOCIAL SERVICES/A-09-95-00056 ."

PART I ALLOCATION OF COSTS BETWEEN PROGRAMS

(Draft Report Recommendation IA:
Page 6)

The State should initiate action to ensure that all foster care training contract costs are allocated to both the federal and State foster care programs in accordance with federal policy, - the State's approved cost allocation plan, and written State policy.

State Comments: The State concurs with the recommendation for those training contracts for which the Department did not obtain special funding approvals.

The State acknowledges the Office of Management and Budget (OMB) Circular and the policy announcement cited in the audit finding. The contract with the California Social Work Education Center (CalSWEC) is a direct charge CONTRACT and as such required specific federal approval under OMB Circular A-87. In 1991, the State began the pursuit of a student stipend program at the request of CalSWEC. Many meetings and discussions followed between CalSWEC, State and federal representatives . Specific intents of the program were clarified and a final contract and Master Plan for the program were executed in December 1992. The approval letters, correspondence and the Plan itself, confirm the methodology used to direct charge this program. (See Exhibit A.)

State Comments

Page Two

A December 24, 1992 letter from Carol Rosen, Region IX ACYF, specifically stated that the CalSWEC application was "in compliance with our federal laws and policies related to administrative and personnel costs, indirect cost rates, matching funds and cost allocation formulas. 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."

The CalSWEC Plan/Application clearly expressed the State's intent to direct charge these contract costs to the Title IV-E program. The Section II Fiscal Structure specifies that "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."

In addition, a confirming letter was sent to Carol Rosen (Region IX-ACF) on November 12, 1992 from Cheryl Rutherford-Kelly (CalSWEC) at the request of the State (See Exhibit B) . It is apparent from this letter that CalSWEC, the Federal Government, and the State made every effort to ensure that the fiscal integrity of the program was preserved.

For these reasons, all foster care training contract costs for the CalSWEC project have been appropriately allocated in accordance with federal policy, the State's policy and the approved cost allocation methodology.

(Draft Report
Page 6)

Recommendation IB:

The State should refund to the Federal Government the \$3,005,312 identified in our audit, and make

State Comments
Page Three

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: The State strongly contests this recommendation. As set forth above, the State received federal approval to direct charge this project to the benefiting program and did so in conformance with OMB Circular A-87. Refer to response to IA, above.

PART II

THIRD PARTY IN-KIND CONTRIBUTIONS

SUBPART 11A.

CALIFORNIA STATE UNIVERSITY AT LONG BEACH
(CSULB) "QUESTIONED COSTS"

(Draft Report
Page 10)

Finding IIA.1: --The CSULB contract claims totaling \$24s,218 (federal share \$131,696) were unallowable due to USE OF AN INAPPROPRIATE INDIRECT COST RATE (IDCR).

USC Comments: The University of Southern California (USC) concurs that the incorrect IDCR was applied with the following explanation. When the initial CSULB subcontract with USC was proposed for a multiple year period, and signed in October 1991, the Rate Agreement in effect provided an instruction rate of 94.1 percent. A copy of the agreement dated March 21, 1991 is attached. (See Exhibit C.) Because the training rate was so high, the Los Angeles County Department of Children and Family Services (LADCFs) asked USC to discount it by using the research rate of 60.5 percent in effect at that time. This was agreed to because it clearly did not constitute overcharging.

The next Rate Agreement was signed on March 23, 1992, but retroactively reduced the instruction rate from 94.1 percent to 47.6 percent for the one year

State Comments

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period beginning July 1, 1991 and provided an instruction rate of 35 percent for the period beginning July 1, 1992. A copy of that agreement is attached in Exhibit D.

This occurred because USC had put too much effort into documenting the research rate (which represents the vast majority of USC'S funded activity) and essentially neglected establishing a true reflection of the cost of training and a proper instruction rate. However, after LADCFS' audit of the first two years of this training grant, it became obvious that USC needed to negotiate a more realistic instruction rate. At our next scheduled indirect cost negotiations, the new rate effective for State Fiscal Year (SFY) 1995-96 was established at 65.5 percent/Modified Training Direct Costs (MTDC) basis for training. (See Exhibit E.)

LADCFS Comments: The LADCFS concurs with the OIG finding and supports USC'S position.

(Draft Report
Page 11)

Finding IIA.2: The CSULEB contract claims totaling \$228,573 (federal share \$122,757) were unallowable because they consisted of UNSUPPORTED OR DUPLICATE COSTS.

USC Comments: The USC does not concur with this finding of the double counting of indirect and direct costs. Unlike commercial operations, faculty and other USC employees perform multi-functional activities. They may be involved in instruction, research, training, patient care and administration. It is hard to categorize effort at a point in time. For example, when a professor is involved in "rounds" is he/she doing patient care or instruction or both at the same time? This is why effort reporting is used at colleges and universities. In addition to being multi-functional, activities and workloads can change significantly from one semester to another,

[Office of Audit Services note- The shaded area represents comments applicable to the draft report that arenolonger relevant due to changes made in the final report.]

State Comments
Page Five

especially when externally sponsored research and training are involved. Projects start and stop during any given month.

In order to fairly determine an indirect cost rate, a snapshot is taken of a given base fiscal year. Rates are calculated based on data from that period. This type of rate calculation is called the "averaging concept" and is prescribed by OMB Circular A-21. Basically, costs tend to average over a longer period of time. The averaging concept does not imply that the elements of cost, such as an individual's effort, will be static over time. The purpose and circumstance of the faculty effort in an academic environment continually evolve from one job to the other and from fiscal year to fiscal year. The chairman of a department may teach one semester and do research another semester. The point of establishing a rate is not to lock in everybody's activity, but rather by averaging, to establish a usable rate.

The effort reported as cost sharing was separate and distinct from what would be defined and included in the calculation of Departmental administration in IDCR. The calculation of IDCR (based on Fiscal Year 1990) could not have duplicated this effort as the project was not active at that time, nor was there any other sponsored activity in that school. The Dean of Social Work is and was the Project Director for this project. This could not be confused with the indirect effort that he provided as a dean, (i.e., Departmental administration as a component of IDCR). Direct effort on a project is readily identifiable. The design and direct management of a project is a direct activity. The DHHS, Division of Cost Allocation has agreed with USC's allocation methodology and has communicated this to LADCFs auditors reviewing years three and four.

[Office of Audit Services note - The shaded area represents comments applicable to the draft report that are no longer relevant due to changes made in the final report.]

State Comments
Page Six

In IDCR negotiations for future years, where this cost sharing/matching will affect the rate calculation, all costs will be reported in a separate account as to clearly distinguish the Departmental administration pool.

LADCFS Comments: The LADCFS does not concur with this finding. First of all, LADCFS does not concur with OIG finding of \$105,647 "unsupported cost." The LADCFS has documentation from its in-house training staff certifying to the time-effort accountability of the USC staff. Although USC documentation may not have been procedurally in accord with OMB Circular A-21, LADCFS' staff validated the documentation to its satisfaction. Additionally, LADCFS does not concur with OIG finding of \$122,926 "duplicate costs" for the same reason cited in the above USC response to this finding.

(Draft Report
Page 11)

Finding IIA.3: The CSULB contract claims totaling \$38,480 (federal share \$20,666) were unallowable because they consisted of PRE-AGREEMENT OR OTHER UNALLOWABLE COSTS.

USC Comments: The USC does not concur with this finding.

With regard to the preagreement cost issue, the project was scheduled to begin in July prior to the beginning of the new fall semester in August but did not actually start until September 17, 1991. The start up costs of designing the program, hiring the Director and other employees, along with recruiting the students, had to be done prior to the beginning of the school year. Unfortunately, the promised start dates were not met by LADCFS. Therefore, in order to comply with the program requirements, USC supported these start up costs and reported them in the matching/cost sharing. No expenses were charged to the project before the September 17, 1991 start date .

[Office of Audit Services note- The shaded area represents comments applicable to the draft report that arenolonger relevant due to changes made in the final report.]

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Page Seven

Also, please note that OMB Circulars A-21 and A-110 allow for pre-award related costs.

LADCFS Comments: The LADCFS concurs with OIG. These costs were part of the in-kind payback by USC.

(Draft Report
Page 11)

Finding IIA.4: The CSULB contract claims totaling \$31,216 (federal share \$16,765) were unallowable because they consisted of INDIRECT COST ON EQUIPMENT AND SPACE RENTAL.

USC Comments: The USC concurs that an error was made in the application of IDCRC as it relates to the equipment and space charges cited in this finding. However, this error was corrected in April 1994, which is not presented in the report.

LADCFS Comments: The LADCFS concurs with OIG draft report. However, these costs were reimbursed as part of the in-kind payback agreed to by USC.

(Draft Report
Page 11)

Finding IIA.5: The USC provided additional training to LADCFS in 1995 at no cost to repay unallowable costs. CREDIT FOR ADDITIONAL TRAINING PROVIDED IN 1995 at no cost by USC to repay the overcharges during SFY 1991-92 and 1992-93 was determined by OIG to be \$67,605, or \$211,465 less than the value determined by USC (e.g., \$279,070). The OIG applied a credit of \$67,605 (federal share \$36,308) against the cumulative alleged "unallowable" costs of \$291,884 (federal share) claimed by USC, reducing the recommended disallowance to \$255,576.

USC Comments: Any overcharge of indirect costs for the first two years was repaid by USC through a negotiated settlement in which USC provided training for LADCFS social workers in the area of "LS." An agreement with LADCFS provided that the social workers to receive this training were to be selected by LADCFS and seven classes were to be offered by Use.

State Comments

Page Eight

The courses were offered and unfortunately were not fully attended by the number of individuals that USC agreed to train, so USC offered a second class to meet its obligation. The arrangement made with the LADCFS to meet this obligation was made on a fixed-price basis. The contract equates to a tuition rate of \$295 per person attending the training. (See correspondence in Exhibit F.)

The auditors viewed legal classes offered elsewhere and used such costs to establish a rate for USC. We contend this comparison is not reasonably valid for many reasons. First, the classes offered elsewhere differed in purpose from our specially prepared "LS" training. Secondly, the faculty offering USC classes were more highly credentialed (-including judges and other experts in the field) . Thirdly, this USC course was designed exclusively for the specific needs and objectives identified by LADCFS and the judicial system advising LADCFS and involved extensive curriculum development. This was not a "pre-packaged" seminar. Finally, USC contracted with LADCFS on a fixed-price basis. The LADCFS accepted this methodology of a per person price, and it is not appropriate now for the federal auditors to apply new cost reimbursement standards to these costs.

The USC contends that OIG finding that LADCFS received more invoices for the training than the number of people who attended the training sessions is incorrect. Finally, the fifth and final class was offered and a correct invoice was submitted to LADCFS . (See Exhibit G.)

State Comments
Page Nine

LADCFS Comments: The LADCFS (as well as USC) does not concur with OIG's determination that the value of in lieu training provided by USC was \$67,605.

First of all, OIG did not include in their calculations that an additional 153 LADCFS employees received the LS training on December 13, 1995. The names of all participants in that class are listed in Exhibit H. The cost for these 153 participants must be added to any calculations regarding USC's repayment status.

Secondly, LADCFS finds OIG determination of costs unreasonably low for this class. In an effort to "confirm" the cost of \$295 proposed by USC and accepted by LADCFS, OIG called one of the two training firms whose flyer was attached to USC's letter of estimated cost of the class (i.e., OIG called the National Center for Continuing Education which presents "Understanding and Analyzing Financial Statements for Lawyers"). The OIG was told on the telephone by this company that the class can be provided at substantial discounts for large groups and/or when clients provide their own facilities. According to the undocumented telephone solicitation, the discounted rate which that particular company offers is \$100 per student up to 48 students, and \$50 per each additional student. These fees have not been substantiated in an actual training. Using that one class as an example, OIG calculated LS class offered by USC by the same amount.

However, the other example class offered by USC to support the \$295 fee, "Advanced Legal Writing and Editing" (LawProse, Inc.), also offers a discount for larger groups--20 percent off their early registration fee of \$295, which brings their lowest cost to \$236.

We question OIG's "comparison" methodology which seems arbitrary in using the lowest discount with no

[Office of Audit Services note -The shaded area represents comments applicable to the draft report that are no longer relevant due to changes made in the final report.]

State Comments

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apparent analysis or consideration given to course content, complexity and research development. Specifically, the Financial Statements class is a "canned" presentation by a Certified Public Accountant and deals with much less complex material related to interpreting financial reports. The LS training teaches social workers the background of constitutional law which forms the basis of how dependency court functions, and the specific issues social workers must address in each report to the court, such as: the social worker's burden of proof in detaining children, parental rights through the various stages of the court process, due diligence related to child removal, termination of parental rights, substantiating reasonable efforts at keeping families together, the -differences between constitutional law, statutory law and case law, the effect of federal law on the State's welfare programs, the application of due process and equal protection laws, the difference between legal reasoning and social diagnosis, and the roles and responsibilities of the many participants in Dependency Court such as judges, children's attorneys, parents' attorneys, LADCFS attorneys, and court-appointed volunteers and experts.

The Los Angeles County Auditor-Controller's calculation defined a baseline rate upon which the added complexity of the specialized training was to be added. The additional research and development effort and the comparison to the two example seminars similar in type (but not content or range) of the proposed training, fully supported the valued rate of \$295 per student.

(Draft Report
Page 14)

IIA.6 Recommendation/CSULB "Questioned Costs":

The CSULB should refund to the Federal Government

State Comments

Page Eleven

\$255,576 for the federal share of unallowable costs claimed for the LADCFS/CSULB contract for the three year period from April 1, 1992 through March 31, 1995, . . and make adjustments for any unallowable costs claimed for LADCFS/CSULB contracts subsequent to March 31, 1995.

LADCFS Comments: The LADCFS does not concur with OIG findings IIA.2 and IIA.5. Regarding finding IIA.2, LADCFS does not concur that "questioned costs" totaling \$228,573 cited in the finding are overcharges or unallowable costs (see LADCFS comments in response to IIA.2) . Regarding finding IIA.5, LADCFS contends that USC should receive full credit of \$279,070 for providing "LS" training tailored exclusively to LADCFS needs.

The LADCFS concurs with OIG regarding USC overcharges cited in findings IIA.1 (\$245,218), IIA.3 (\$38,480) , and IIA.4 (\$31,216) . However, these costs were reimbursed through the "LS" training; a balance of \$35,844 remains.

In sum, outstanding USC overcharges totaling \$35,844 remain after crediting \$279,070 against overcharges totaling \$314,914. Additionally, USC may have overcharged IUC/LADCFS by continuing to apply an inappropriate IDCR during SFYS 1993-94 and 1994-95. Apparently, USC didn't renegotiate their IDCR from 35 percent to 65.5 percent until SFY 1995-96. (See Exhibit E.)

Because of the short response period provided, LADCFS was unable to make determinations regarding plans to recover these outstanding costs and the existence of any overcharges which may have resulted from USC's continued application of an inappropriate IDCR (or any of the other questioned costs previously cited)

State Comments
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during SFYS 1993-94 and 1994-95. The LADCFS will further investigate these matters and submit the results of its determinations to the State and OIG by June 30, 1996.

State Comments: The State concurs with LADCFS' response to this recommendation (See Above) . After LADCFS has been able to determine the total outstanding USC overcharges resulting from this audit, the State will ensure that necessary claims adjustments are processed to repay the federal share of these overcharges.

SUBPART 11A. CSULB "SET ASIDE COSTS"

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Finding IIA.7: Balance of Third Party In-kind Contribution Set Aside - LA County. Under the CSULB contract, \$848,170 (federal share \$455,516) is being set aside for resolution by ACF because of the inconsistency between the Region IX ACF approval and national ACF policy which does not allow third party contributions for meeting the State's matching requirements.

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IIA.7: Recommendation/CSULB "Set Aside Costs"

The State should coordinate with ACF on the resolution of \$848,170 (federal share \$455,516) of the set aside costs.

State Comments: The State concurs with this recommendation.

When Region IX ACF rescinded their approval of CalSWEC's claiming methodology, the State immediately explored options which would allow continued private university participation in the stipend program even though the State could not benefit from private universities' in-kind contributions to the project. The Department successfully identified a methodology which was acceptable to Region IX ACF and we

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confirmed to them in writing that no private university will be contributing any matching funds to draw down the federal Title IV-E funds which support the CalSWEC stipend program. (See Exhibit I.)

During this same period, the State advised LADCFS and the Inter-University Consortium (IUC) of the rescission of this federal approval. When USC was notified of this change in policy, it terminated its contract with IUC for the social work stipend program effective September 30, 1995. Therefore, the issue between the State and ACF has already been fully resolved.

LADCFS Comments: The LADCFS canceled USC's sub-contract status with CSULB effective September 30, 1995. The LADCFS concurs with the State's position.

SUBPART IIB. UNIVERSITY OF CALIFORNIA AT BERKELEY
(UCB)/"QUESTIONED COSTS"

(Draft Report Page 13) Finding IIB.1: The UCB contract claims totaling \$136,676 (federal share of findings IIB.1 and IIB.2 is \$96,590) were unallowable due to INAPPROPRIATELY APPLYING THE INDIRECT COST RATE TO STUDENT STIPENDS.

USC Comments: The USC does not concur that it misapplied IDCR to stipends but rather that they are a part of the modified training direct cost (MTDC) base.

The conditions under which students participate in IUC/CalSWEC are identical to conditions under which students participate in USC's Graduate Assistant Program, which employs Research Assistants (RAs). In both instances, the students are considered to be paid workers by USC. See excerpts from a description of IUC/CalSWEC's student work program from Dean Rino Patti; and USC's Graduate Assistant Handbook 1995-1996 in Exhibit J.

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Student employee compensation, like any other compensation, is included in MTDC base. This is consistent with our IDCR Agreement, and with the way in which Public Health Service (PHS) regulations treat stipends awarded under training grants. See PHS Grants Policy Statement, (Rev. 4/1/94) p. 7-16) . (See Exhibit K.)

The USC has not historically conducted programs such as IUC/CalsWEC, and thus has not created a separate object code that precisely fits IUC/CalsWEC interns, who are neither RAs nor fellows. Although their positions are far more similar to those of RA's than they are to fellows, they were misclassified as fellows in USC's accounting system. This sometimes occurs when object codes do not precisely match a budget line item. We have found, however, that it is impractical and unwise to create new object codes for single projects.

CalsWEC Comments: The CalsWEC agrees with USC's comments that they did not inappropriately apply the indirect cost rate to student stipends. Each university in the CalsWEC consortium has a negotiated federal rate agreement that covers those items to which an indirect rate may be applied. The CalsWEC does not disapprove another university's agreement with the Federal Government and supports USC's interpretation of its federal rate agreement. We dispute owing \$136,676 because of this application of USC's rate agreement.

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Finding IIB.2: The USC/UCB-CalsWEC contract claims totaling \$32,065 (federal share of findings IIB.1 and IIB.2 is \$96,590) were unallowable due to CLAIMING INDIRECT COSTS RELATED TO UNALLOWABLE DIRECT CHARGES.

[office Of Audit Services note- The shaded area represents comments applicable to the draft report that are no longer relevant due to changes made in the final report.]

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USC Comments: The USC does not concur with this finding. Please see response to Finding IIA.2 ("comments" page 4). Both findings involve the identical issue that USC allegedly claimed "duplicate costs."

CalsWEC Comments: The CalsWEC does not concur with the finding that UCB's contract claims totaling \$32,065 were unallowable due to claiming indirect costs related to unallowable direct charges. We concur with USC's position that these costs were allowable as direct costs and therefore eligible to have the indirect rate applied to these costs.

(Draft Report Page 14) IIB.3 Recommendation/USC/UCB-CALSWEC "Questioned costs"

California should refund to the Federal Government \$96,590 for the federal share of unallowable costs claimed for UCB CalsWEC contracts for the three year period from April 1, 1992 through March 31, 1995, ...and make adjustments for any unallowable costs claimed for UCB CALSWEC contracts subsequent to March 31, 1995.

State Comments: The State does not concur with this recommendation. The Department concurs with the positions presented by USC in response to Findings IIB.1 and IIB.2 above.

SUBPART IIB. UCB "SET ASIDE COSTS"

(Draft Report Page 13) Finding IIB.4: Balance of Third Party In-kind Contributions Set Aside - UC Berkeley. Under the UCB contract, \$212,676 (\$121,723 federal share) is being set aside for resolution by ACF because of the inconsistency between Region IX ACF approval and national ACF policy which does not allow third party contributions for meeting the State's matching requirements .

[Office of Audit Services note -The shaded area represents comments applicable to the draft report that arenolonger relevant due to changes made in the final report.]

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(Draft Report IIB.5 Recommendation/UCB "Set Aside Costs"
Page 14)

The State should coordinate with ACF on the resolution of \$212,676 (\$121,723 Federal share) of UCB "set aside" costs.

State Comments: The State concurs with this recommendation.

As soon as the State became aware that the match offered by the private universities as part of the CalSWEC project was a subject of OIG investigation, the California Department of Social Services contacted Region IX ACF staff to confirm whether or not the match would continue to be allowable. The State and CalSWEC originally allowed private universities in California to participate in the Title IV-E stipend program based on written approval from Region IX ACF officials, confirming that the use of the private university match was in compliance with federal laws and policies.

Region IX ACF's response was to withdraw and render inoperative their previous approval and to advise the State that "any part of the State match which comes from a private source entails a serious risk of disallowance ."

When Region IX ACF rescinded their approval of the CalSWEC claiming methodology, the State immediately explored options which would allow continued private university participation in the stipend program even though the State could not benefit from private universities' in-kind contributions to the project. The Department successfully identified a methodology which was acceptable to Region IX ACF and we confirmed to them in writing that no private university will be contributing any matching funds to draw down the federal Title IV-E funds which support the CalSWEC stipend program. (See Exhibit I.)

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PART III. UNALLOWABLE DIRECT CHARGES/ UCB-CALSWEC CONTRACT

(Draft Report Page 14) Finding III: \$91,613 (federal share \$51,924) of directs costs claimed to the UCB-CalsWEC contract were unallowable because these same costs were first included in the indirect cost pool used to develop IDCR for this contract and then direct charged to the contract, causing a duplicate claim for the same costs.

(Draft Report Page 14) Recommendation III: The State should refund to the Federal Government the \$51,924, and make financial adjustments for any unallowable claims subsequent to March 31, 1995.

USC Comments: The USC does not concur with this finding. Please see response to Finding IIA.2. Both findings involve the same issue that USC allegedly claimed "duplicate costs."

CalsWEC Comments: The CalsWEC concurs with USC's denial of the double counting of indirect and direct costs and the reasons for their denial. We applaud their plans to report all future costs in a separate account clearly set apart from the Departmental administration pool.

State Comments: The State does not concur with OIG's recommendation and supports USC/CalsWEC's position cited above.

[office of Audit Services note - The shaded area represents comments applicable to the draft report that are no longer relevant due to changes made in the final report.]

STATE EXHIBITS
A-09-95-00056 DRAFT REPORT

Supporting documentation for our comments are contained in Exhibits A through K.

- EXHIBIT A September 11, 1992 Title IV-E Master Social Work Training Program Agreement between CDSS and the Regents, USC Social Work Education Center (aka: California Social Work Education Center, or CalSWEC agreement) and December 24, 1992 DHHS/Region IX Administration for Children and Families (ACF) letter to CDSS approving the CalSWEC agreement.
- EXHIBIT B November 12, 1992 letter from Cheryl Rutherford-Kelly (CalSWEC) to Carol Rosen (Region IX DHHS ACYF).
- EXHIBIT C USC rate agreement effective March 21, 1991.
- EXHIBIT D USC rate agreement effective March 16, 1992.
- EXHIBIT E USC rate agreement effective March 20, 1993.
- EXHIBIT F USC-LADCFS interagency correspondence detailing basis for "legal sufficiencies" tuition rate of \$295 per trainee.
- EXHIBIT G USC Invoice for the fifth and final "legal sufficiencies" class (October 3, 1995) .
- EXHIBIT H March 26, 1996 invoice for 153 additional students participating in the USC "legal sufficiencies" course.
- EXHIBIT I November 20, 1995 letter from CDSS to DHHS Region IX, confirming the DHHS agreement of the new CDSS method to meet the local match requirements to allow continued private university participation in the CalSWEC program; and

January 17, 1996 CDSS letter to DHHS, Region IX, assuring DHHS that private universities on the CalSWEC will not be contributing any matching funds to this project.
- EXHIBIT J Description of the work requirements for students participating in the IUC/CalSWEC with the work requirements of students participating in USC's Graduate Assistance Program (e.g., Research Assistants) .
- EXHIBIT K U.S. Public Health Services (PHS) Grants Policy Statement, (Revision April 1, 1994; pages 7 through 16).