



**Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102**

Report No. A-10-03-01001
June 27,2003

Karl R. Brimner, Director
Mental Health Division
Washington State Department of Social and Health Services
P.O.Box 45320
Olympia, Washington 98504-5320

Dear Mr. Brimner:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General, Office of Audit Services' report that provides the results of our audit of costs claimed under the Substance Abuse and Mental Health Services Administration's grant number SMX060048J awarded to the Washington State Department of Social and Health Services for the period July 1,2000 through June 30,2001. A copy of this report will be forwarded to the action official noted below for his review and any action deemed necessary.

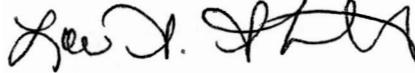
Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official within 30 days from the date of this letter. Your response should present any comments or additional information that you believe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

In accordance with the principles of the Freedom of Information Act, 5 U.S.C. 552, as amended by Public Law 104-231, Office of Inspector General, Office of Audit Services' reports issued to the Department's grantees and contractors are made available to members of the 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.)

We appreciated the cooperation your staff provided to us. They contributed to the timely completion of this audit.

To facilitate identification, please refer to Report Number A-10-03-01001 in all correspondence relating to this report.

Sincerely,

A handwritten signature in black ink, appearing to read "Lori A. Ahlstrand". The signature is fluid and cursive, with a large initial "L" and "A".

Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures

cc: Hank Balderrama
Mental Health Program Administrator

Direct Reply to HHS Action Official:

Frederick S. Price, Jr.
Financial Advisory Services Officer
Division of Grants and Contracts Management
Substance Abuse and Mental Health Services Administration
Parklawn Building, Room 13-103
5600 Fishers Lane
Rockville, Maryland 20857

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**AUDIT OF
SUBSTANCE ABUSE AND MENTAL
HEALTH SERVICES
ADMINISTRATION'S GRANT NUMBER
SMX060048J AWARDED TO THE
WASHINGTON STATE DEPARTMENT
OF SOCIAL AND HEALTH SERVICES**



**JUNE 2003
CIN: A-10-03-01001**

Office of Inspector General

<http://oig.hhs.gov>

The mission of the Office of Inspector General (OIG), as mandated by Public Law 95-452, as amended, is to protect the integrity of the Department of Health and Human Services (HHS) programs, as well as the health and welfare of beneficiaries served by those programs. This statutory mission is carried out through a nationwide network of audits, investigations, and inspections conducted by the following operating components:

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The OIG's Office of Audit Services (OAS) provides all auditing services for HHS, either by conducting audits with its own audit resources or by overseeing audit work done by others. Audits examine the performance of HHS programs and/or its grantees and contractors in carrying out their respective responsibilities and are intended to provide independent assessments of HHS programs and operations in order to reduce waste, abuse, and mismanagement and to promote economy and efficiency throughout the department.

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In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), Office of Inspector General, Office of Audit Services reports are made available to members of the public to the extent the information is not subject to exemptions in the act. (See 45 CFR Part 5.)

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 HHSIOIG/OAS. Authorized officials of the HHS divisions will make final determination on these matters.





Region IX
Office of Audit Services
50 United Nations Plaza
Room 171
San Francisco, CA 94102

Report Number: A-10-03-01001
June 27, 2003

Karl R. Brimmer, Director
Mental Health Division
Washington State Department of Social and Health Services
P.O. Box 45320
Olympia, Washington 98504-5320

Dear Mr. Brimmer:

This report provides you with the results of our audit of costs claimed under the Substance Abuse and Mental Health Services Administration's (SAMHSA) grant number SMX060048J awarded to the Washington State Department of Social and Health Services, Mental Health Division (state). The grant was part of a formula grant program called Projects for Assistance in Transition from Homelessness (PATH). Of \$492,000 awarded for the grant period July 1, 2000 through June 30, 2001, the state claimed \$361,835 for federal reimbursement.

OBJECTIVE

The objective of the audit was to determine if the costs claimed for fiscal year (FY) 2001 represented allowable, allocable and reasonable costs under the terms of the grant and applicable federal laws and regulations.

SUMMARY OF FINDINGS

Our review disclosed that \$319,326 of the \$361,835 claimed by the state under the FY 2001 PATH grant was allowable for federal reimbursement. The remaining \$42,509 represented unallowable costs claimed that included: (i) \$11,785 for prior period costs, (ii) \$10,000 for a duplicate claim of prior period costs, (iii) \$19,996 for grant funds obligated but not expended, and (iv) \$728 for costs incorrectly allocated to the grant.

Although the costs claimed under the FY 2001 PATH grant were the focus of our audit, it came to our attention that the state claimed \$9,575 in unallowable expenditures from prior grant periods under the FY 2000 PATH grant.

We recommend that the state refund \$52,084 to the Federal Government; \$42,509 for FY 2001 and \$9,575 for FY 2000 PATH grants.

In response to our draft report, state officials concurred with the findings relating to \$21,360 (\$11,785 for FY 2001 and \$9,575 for FY 2000) for expenditures from prior grant periods and \$728 for an incorrect allocation. The state officials did not concur with the finding relating to \$10,000 for prior period subgrant expenditures or \$19,996 for grant funds obligated but not expended. They offered documents in support of their positions. We determined that the state's comments and the additional documentation did not support the allowability of the costs.

We have summarized the state's comments and the Office of Inspector General's (OIG) response to those comments under the FINDINGS AND RECOMMENDATION section of the report. A copy of the state's formal comments is included as an appendix to the report. However, exhibits included with the state's comments are not included but will be made available to the Department of Health and Human Services (HHS) action official for final determination.

INTRODUCTION

BACKGROUND

Of the estimated 700,000 homeless Americans, about one-third have serious mental illnesses, and about one-half of those with mental illnesses also have alcohol and/or drug problems. To help address the needs of these people, Congress established the PATH program in 1990. The legislative authority for the PATH program is found in the Public Health Service Act, Title V, Part C, Section 521, as amended. Under the PATH program, the Federal Government distributes funds to states to support the delivery of services to individuals with serious mental illnesses (and those with co-occurring mental and substance abuse disorders) who are homeless or at risk of becoming homeless.

Within the HHS, SAMSHA is the agency that administers the PATH program. The SAMSHA awarded the state a PATH grant of \$492,000 for the period July 1, 2000 through June 30, 2001. Of the \$492,000 awarded, the state claimed \$361,835 in federal reimbursement through its final Financial Status Report (FSR) dated November 15, 2002.

During this grant period, the state served PATH clients in four counties in Washington State; Snohomish, King, Pierce, and Thurston. The state entered into subgrantee agreements with each county organization. The subgrantees, in turn, entered into agreements with mental health agencies and social service providers. All federal funds received by the state were passed through to the counties.

OBJECTIVE, SCOPE AND METHODOLOGY

Our audit was performed in accordance with generally accepted government auditing standards. The objective of the audit was to determine if the costs claimed for FY 2001 represented allowable, allocable and reasonable costs under the terms of the grant and applicable federal laws and regulations.

Although the scope of our audit was limited to a review of costs claimed by the state under its FY 2001 PATH grant, it came to our attention that the state claimed \$9,575 of unallowable expenditures under its FY 2000 PATH grant. Therefore, we adjusted the scope of our audit to include a review of these unallowable costs.

To accomplish our audit objective, we:

- Examined the state's grant application, FSRs, accounting records, subgrantee agreements, and other supporting documentation.
- Interviewed staff at the state, county, and health care provider levels.
- Reviewed accounting records and other supporting documentation at the counties and health care providers.
- Discussed the results of our audit with state officials.

Our evaluation of internal controls was limited to the specific objective of the audit relating to costs claimed under the PATH grant. We also reviewed the Office of Management and Budget (OMB) A-133 report, dated June 30, 2001, performed by the Washington State Auditor's Office; examined SAMHSA documents; and held discussions with SAMHSA staff.

We performed fieldwork at the offices of the: (i) Department of Social and Health Services; Mental Health Division in Olympia, Washington; (ii) county organizations in Everett, Seattle, Tacoma, and Olympia, Washington; and (iii) health care providers in Everett, Tacoma, and Olympia, Washington. Our fieldwork was conducted from January to March 2003.

FINDINGS AND RECOMMENDATION

Of the \$361,835 claimed by the state under the FY 2001 PATH grant, we determined \$319,326 was allowable for federal reimbursement. The remaining \$42,509 represented unallowable costs claimed including:

- \$11,785 for expenditures carried forward from prior grant periods,¹
- \$10,000 for a duplicate claim of prior period subgrant expenditures,
- \$19,996 for grant funds obligated but not expended, and
- \$728 for expenditures incorrectly allocated to the PATH grant.

EXPENDITURES FROM PRIOR GRANT PERIODS

For FYs 2000 and 2001, the state claimed \$21,360 for expenditures from prior grant periods, which were not allowable. The state expended more than the amounts authorized under PATH grants in two prior periods. The expenditures over the authorized amounts of \$9,575 and \$11,785 were inappropriately transferred to the FY 2000 and FY 2001 PATH grants, respectively.

The Office of Management and Budget (OMB) Circular A-87 Section C(3)(c) states that:

any cost allocable to a particular federal award or cost objective under the principles provided for in this Circular may not be charged to other federal awards to overcome fund deficiencies, to avoid restrictions imposed by law or terms of the federal awards, or for other reasons.

PRIOR PERIOD SUBGRANT EXPENDITURES

The state erroneously claimed \$10,000 in subgrant expenditures related to and previously reimbursed under the FY 2000 PATH grant. The state awarded \$10,000 each to four subgrantees (\$40,000 total) late in the FY 2000 grant year. The state's final FSR showed that expenditures totaling \$40,000 for four subgrants were claimed under the FY 2000 PATH grant. Of the \$40,000 initially claimed in FY 2000, the state claimed \$10,000 again under the FY 2001 PATH grant.

¹ Our review also disclosed unallowable prior period costs of \$9,575 claimed under the FY 2000 PATH grant.

The OMB Circular A-87 Section C(3)(a) states that:

a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

GRANT FUNDS OBLIGATED BUT NOT EXPENDED

The state claimed \$19,996 in unallowable costs under the FY 2001 PATH grant. The state obligated \$100,000 for a subgrant to one county organization. The state claimed the \$100,000 obligation on its final FSR. However, the state paid the county organization only \$80,004 for subgrant expenditures for the FY 2001, \$19,996 less than what the state obligated and claimed. Therefore, the final claim was overstated by \$19,996.

The OMB Circular A-87 Section C(3)(a) states that:

a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

INCORRECT ALLOCATION

The state claimed \$728 for expenditures that were not related to the FY 2001 PATH grant. A health care provider, under agreement with one of the county organizations, incorrectly allocated costs related to another program to the FY 2001 PATH grant.

The OMB Circular A-87 Section C(3)(a) states that:

a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

RECOMMENDATION

We recommend that the state refund \$52,084 to the Federal Government; \$42,509 for FY 2001 and \$9,575 for FY 2000 PATH grants.

STATE COMMENTS

The state officials concurred with the findings relating to \$21,360 (\$11,785 for FY 2001 and \$9,575 for FY 2000)² for expenditures from prior grant periods and \$728 for an incorrect allocation.

² State officials confirmed through electronic mail that the \$9,575 for FY 2000 should be included in their concurrence.

The state officials did not concur with the finding relating to \$10,000 for prior period subgrant expenditures. They stated that the \$10,000 expenditure was not a duplication but the result of a change in grant periods causing an overlap between FY 2000 and FY 2001.

The state officials also did not concur with the finding relating to the \$19,996 for grant funds obligated but not expended. They stated that adjustments made in the reconciliation process corrected the source documents.

OIG RESPONSE

With regard to the prior period subgrant expenditures, the additional documents provided by the state did not support the \$10,000 claimed. Although there was an overlap between the two grant periods, we determined that the state claimed on the FY 2000 FSR the total \$40,000 awarded to subgrantees and did not support the additional \$10,000 claimed on the FY 2001 FSR.

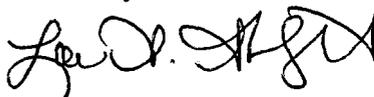
With regard to the \$19,996 for grant **funds** obligated but not expended, the additional documents provided by the state were not relevant to the state's claim for federal reimbursement. The state paid the county only \$80,004 for subgrant expenditures for FY 2001, \$19,996 less than what it claimed on its FSR for the grant year.

* * * * *

In accordance with the principles of the Freedom of Information Act (5 U.S.C. 552, as amended by Public Law 104-231), OIG, OAS reports issued to the Department's grantees and contractors are made available to members of the press and general public to the extent information contained therein is not subject to exemptions on the Act which the Department chooses to exercise. (See 45 CFR part 5).

To facilitate identification, please refer to Report Number A-10-03-01001 in all correspondence relating to this report.

Sincerely,



Lori A. Ahlstrand
Regional Inspector General
for Audit Services

Enclosures

APPENDIX



STATE OF WASHINGTON

DEPARTMENT OF SOCIAL AND HEALTH SERVICES

Mental Health Division • PO Box 45320 • Olympia WA 98504-5320 • (360) 902-8070

May 23, 2003

Lori A. Ahlstrand, Regional Inspector General
Office of Audit Services
50 United Nations Plaza, Room 171
San Francisco, CA 94102

RE: Report No. A-10-03-01001

Dear Ms. Ahlstrand:

Thank you for the recent draft audit report of the Substance Abuse and Mental Health Services Administration's (SAMHSA) Grant to the Washington State Department of Social and Health Services' (DSHS) Mental Health Division (MHD). These funds support our administration of the Programs for Assistance in Transition from Homelessness (PATH) for homeless and mentally ill individuals.

We appreciate the approach your local auditors have taken in working with us. We wish to offer additional information for your consideration, which may affect the findings.

In regard to the specific findings, our position is listed with a restatement of each finding.

Finding # 1: \$11,785 for expenditures carried forward from prior grant periods.

We concur.

MHD requested authorization from the SAMHSA Center for Mental Health Services (CMHS) and proceeded in accordance with MHD and DSHS procedures. We are, however, unable to produce documentation from CMHS and internally to support our position that we proceeded properly. Consequently, we do not challenge the finding.

Finding # 2: \$10,000 for a duplicate claim of prior period subgrant expenditures

We do not concur and offer additional supporting documentation.

This finding was affected by changes in the award year from CMHS to MHD and from MHD change in contract year with PATH contractors. There was overlap between the

Note: Subsequent to the state's comments, state officials confirmed through electronic mail that the \$9,575 for FY 2000 should be included in the concurrence for Finding No. 1.

Lori Ahlstrand
May 23, 2003
Page Two

previously established time period and the renewed time period. There was consistency in the manner in which all involved parties handled these transactions. We believe that the attached supporting documentation will demonstrate that contract balances were attributed to proper award periods. (Reference Finding #2 - Snohomish County and Exhibit 1, attached.)

Finding # 3: **\$19,996** for grant funds obligated but not expended

We do not concur and offer additional supporting documentation.

The finding could reasonably be reached based on source documents from the contractor. Supporting documents from the contractor demonstrate that adjustments in the process of reconciliation corrected the source documents. Payments were made in the amounts claimed by MHD to the federal funding source. (Reference Finding #3 - King County and Exhibits 3, 4, 5 and 6, attached.)

Finding # 4: \$728 for expenditures incorrectly allocated to the PATH grant

We concur.

MHD has taken quality assurance steps to assure that circumstances that led to the findings will be minimized in the future. We are now reconciling the accounts on a quarterly basis. We are also monitoring expenditures of individual contractors to assure that their claims are submitted on a timely basis. Already we have assured that billings this year are consistent with the amount of our award.

Your consideration of our response is appreciated. Please feel free to contact me as needed.

Sincerely,



Karl R. Brimner, M.Ed.
Director
Mental Health Division

Enclosures

cc: Hank Balderrama, MHD PATH Administrator
Linda Tullis, MHD Chief of Finance