



MAR 12, 1996

REGION IV  
P.O. BOX 2047  
ATLANTA, GEORGIA 30301

CIN: A-04-95-00085

Mr. Edward A. Feaver, Secretary  
Florida Department of Health  
and Rehabilitative Services  
1317 Winewood Boulevard  
Building 1, Room 227  
Tallahassee, Florida 32399-0700

Dear Mr. Feaver:

This final report provides the results of our review of contracted training cost incurred by the Florida Department of Health and Rehabilitative Services (DHRS). The objective of the review was to determine the allowability of contracted training cost allocated to federally funded programs administered by DHRS during State Fiscal Years (SFY) ending June 30, 1994 and 1995.

Our review of Title IV-E contracted training cost showed:

- ▶ Administrative cost exceeded the maximum amount allowed under State law by \$626,071. The DHRS believed it was permissible to use such excess administrative cost to meet Federal matching requirements. According to a DHRS official, the State has discontinued reporting cost in excess of the capped amount.
- ▶ Cost recorded in DHRS' accounting records was \$148,627 less than cost reported to the Federal Government. We believe reported cost exceeded recorded cost because of flaws in the computerized grant reporting system recently implemented by DHRS.
- ▶ Administrative cost totaling \$172,653 (\$98,635 for SFY 1994) and (\$74,018 for SFY 1995) was claimed at an enhanced Federal Financial Participation (FFP) rate rather than the lesser administrative cost rate. A DHRS official said it was an administrative oversight that caused DHRS to claim administrative cost at an enhanced rate rather than the appropriate lesser rate.

We are recommending DHRS make a financial adjustment of:

- ▶ \$626,071 (\$469,554 FFP) applicable to administrative cost in excess of the amount allowed by State law,
- ▶ \$148,627 (\$111,470 FFP) applicable to cost reported in excess of cost recorded, and

- ▶ \$74,018 (FFP) applicable to administrative cost claimed for SFY 1995 at an enhanced rate rather than the lesser administrative cost rate.

We also recommend that DHRS:

- ▶ limit future administrative cost claims to amounts allowed by State law,
- ▶ identify and correct the flaws in its new computerized grant reporting system, and
- ▶ calculate future claims for administrative cost using the federally established administrative cost rate rather than the enhanced FFP rate.

In written comments to our draft report, DHRS agreed with our recommendations. The DHRS' comments are summarized in the body of the report and are enclosed in their entirety as an Appendix.

## INTRODUCTION

### BACKGROUND

The Florida DHRS has the responsibility for the training of social services personnel so that they will have the skill, knowledge, and proficiency to meet the stated objectives of the various programs that are administered by the department. Many training needs are met through internal resources. However, a substantial amount of Foster Care and Adoption Assistance (Title IV-E) related training was provided under contracts with educational institutions.

In addition to Title IV-E, the scope of our audit of contracted training costs included two other federally funded programs administered by DHRS and one federally funded program administered by the Florida Agency for Health Care Administration. The programs DHRS administered were:

- Aid to Families With Dependant Children (Title IV-A), and
- Child Support and Establishment of Paternity (Title IV-D).

The Florida Agency for Health Care Administration administered the Medicaid (Title XIX) program.

All findings discussed in this report relate to the Title IV-E program. During SFYs 1994 and 1995, DHRS claimed approximately \$8 million (Federal share \$6 million) in Title IV-E training cost.

## SCOPE

The objective of our review was to determine the allowability of contracted training cost allocated to federally funded programs administered by DHRS during the SFY ended June 30, 1994. Based on our finding that DHRS claimed unallowable Title IV-E cost in SFY 1994, we expanded the scope of the review to quantify the amount of additional unallowable Title IV-E training cost DHRS claimed in SFY 1995.

To accomplish our objective, we:

- ▲ Met with Regional Administration for Children and Families (ACF) and Health Care Financing Administration (HCFA) program representatives to discuss how the State's training program operated, obtained applicable quarterly expenditure reports, and determined the methodology used by Federal officials to identify training cost included in reported costs.
- ▲ Determined if prior audits of the State agency's operation address the training of social services personnel.
- ▲ Reconciled reported training cost with data in the State's accounting records and traced selected transactions to supporting documentation.
- ▲ Obtained and reviewed selected training contracts with public and private entities.
- ▲ Traced selected contractors' reported cost to supporting documentation.

We reviewed the State Automated Management Accounting System (SAMAS) to the extent deemed necessary. The review included reconciling reported Titles IV-A, IV-D, IV-E and XIX costs to SAMAS records and tracing selected transactions to supporting documentation. Based on the results of this limited internal control review, we concluded that the DHRS records for SFY 1994 were reliable for purposes of this review. However, we were unable to reconcile Title IV-E contracted training cost reported during SFY 1995 to SAMAS records or supporting documentation.

Field work was performed at State offices in Tallahassee, Florida during the period February 1995 to September 1995. Field work was also performed in February 1995 at the Regional ACF Offices in Atlanta, Georgia. Our review was conducted in accordance with generally accepted government auditing standards.

The DHRS' comments are summarized in the body of the report and are enclosed as an Appendix in their entirety.

## FINDINGS AND RECOMMENDATIONS

### STATUTORY LIMITATION ON ADMINISTRATIVE COST

The DHRS reported Title IV-E expenditures that included \$626,071 of administrative cost that exceeded the maximum amount allowed under State law. In DHRS' opinion, this cost could be used to meet the State's Federal matching requirements. However, Federal regulations state that matching requirements may be satisfied with **allowable** costs incurred by a contractor under a grant. In addition, the applicable Federal cost principals state that costs prohibited under State law are not allowable under a grant program.

Florida Statute 216.346 limits administrative cost in contracts between State agencies to five percent. Specifically,

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

Beginning in SFY 1994, DHRS claimed administrative cost in excess of the five percent cap State law imposed on training contracts between State agencies and universities. In SFY 1994, DHRS had training contracts with three State universities. The universities properly limited the administrative cost they reported to DHRS to five percent of direct cost incurred under the contracts. The DHRS, in turn, reported to the Federal Government the allowable five percent of administrative cost incurred by the universities. The DHRS not only reported the universities' allowable cost, but also reported a portion of the costs the universities were prohibited by State law from claiming.

The DHRS reported as expenditures a portion of the difference between the amounts the universities claimed for reimbursement and the amounts that would have been allowed under the universities' established indirect cost rates. As a result, DHRS claimed Title IV-E expenditures that included \$626,071 of administrative cost that exceeded the maximum amount allowed under State law.

Using the rationale that a grant to a State agency is a grant to the "State" as an entity, DHRS believed the additional cost claimed could be used to meet the State's 25 percent matching requirement under the grant. Accordingly, DHRS increased total expenditures reported by the universities by one third.

For example, if the universities reported total expenditures of \$75 to DHRS, it then reported to the Federal Government \$100 [(\$75 + (\$75/3))] as expenditures. Using this methodology resulted in the Federal Government essentially funding 100 percent of allowable cost incurred under the contracts. A DHRS official advised us that they have discontinued this practice.

Federal regulations limit match-requirement cost to allowable cost and Federal cost principles exclude State-prohibited cost from allowable cost. The Code of Federal Regulations (CFR) at 45 CFR 74.52 states that a cost-sharing or matching requirement may be satisfied by allowable cost incurred under the grant by the grantee or subgrantee.

In defining allowable cost under a grant program, paragraph C.1. of Attachment 1 to the Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State and Local Governments* states:

*"To be allowable under a grant program, costs must...be authorized or not prohibited under State or local laws or regulations."*

Based on Federal regulations and cost principles, we conclude that \$626,071 DHRS reported as expenditures did not meet the definition of "allowable cost" under State or Federal criteria and are therefore unallowable for Federal reimbursement.

### **Recommendation**

We recommend DHRS refund to the Federal Government \$626,071 (\$469,554 FFP) of unallowable match claimed.

### **DHRS Comments**

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

### **SUPPORTING DOCUMENTATION FOR REPORTED EXPENDITURES**

Cost recorded in DHRS' accounting records was \$148,627 less than cost reported to the Federal Government. We believe reported cost exceeded recorded cost because of flaws in the computerized grant reporting system recently implemented by DHRS.

The DHRS was unable to provide us supporting documentation for \$148,627 (Federal share: \$111,470) of its reported Title IV-E training expenditures for SFY 1995. We attribute this problem to flaws in DHRS' newly implemented computerized grant reporting system. Federal regulations require the maintenance of adequate documentation to support charges to grant programs.

Federal regulations at 45 CFR 74.61 (b), state:

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

Beginning in SFY 1995, DHRS initiated a computerized grant reporting system which calculated expenditures chargeable to specific programs. The system uses SAMAS cost data and allocation data and adjustments inputted by DHRS to prepare a report that identifies

expenditures chargeable to Title IV-E training activities. The system next applies the FFP rate of 75 percent to data in the first report to prepare a second report that identifies the Federal share of program expenditures.

Our examination of the DHRS generated reports showed that the amount DHRS claimed as Title IV-E training expenditures was \$148,627 more than was shown in the reports. The DHRS was unable to provide us supporting documentation for the \$148,627 claimed.

We attribute the lack of documentation to flaws in DHRS' newly implemented computerized grant reporting system. Our limited review of the system showed the extraction of SAMAS data and the application of allocation percentages were accurate. Therefore, we concluded that the problem exists either in the DHRS inputted adjustments to the report that identifies Title IV-E training expenditures or the computerized grant reporting system's application of the FFP percentages to the expenditures.

### **Recommendation**

We recommend DHRS make a financial adjustment of \$148,627 (\$111,470, Federal share) for cost reported in excess of cost recorded during SFY 1995. The DHRS should also identify and correct the flaws in its new computerized grant reporting system.

### **DHRS Comments**

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

### **FEDERAL SHARE OF ADMINISTRATIVE COST**

The Federal share of administrative cost related to Title IV-E training activities was calculated at the enhanced 75 percent rate rather than the appropriate 50 percent rate. The use of the enhanced rate resulted in a \$172,653 overstatement of the Federal share of the cost for SFYs 1994 and 1995. Cost was overstated by \$98,635 in SFY 1994 and by \$74,018 in SFY 1995.

Several Federal regulations address FFP availability for Title IV-E training activities. The 45 CFR 1356.60(b)(1) states FFP under Title IV-E is available at the 75 percent rate for "the cost of training personnel employed or preparing for employment by the State or local agency administering the plan."

In regard to the 75 percent FFP rate, 45 CFR 1356.60(b)(3) provides that short and long term training at educational institutions and in-service training may be provided in accordance with 45 CFR 235.63 through 235.66(a). Additionally, the 45 CFR 235.64(c) provides a listing of cost elements for which FFP at the 75 percent rate is available for training and education outside of the agency. Administrative (indirect) cost are not included in this listing.

The 45 CFR 235.64(d) states FFP at the 75 percent rate is available for payments to educational institutions for salaries, fringe benefits, and travel of instructors, clerical assistance, teaching materials and equipment. Administrative (indirect) cost are also not included in this listing.

A DHRS official told us that their use of the incorrect administrative cost rate was an inadvertent oversight which has been corrected.

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

Based on ACF's clarification of the administrative cost reimbursement rate issue, we are not recommending a financial adjustment relating to the \$98,635 of administrative cost DHRS overclaimed for SFY 1994. However, we are recommending a financial adjustment for the \$74,018 DHRS overclaimed in SFY 1995.

### **Recommendation**

We recommend DHRS refund \$74,018 (FFP) applicable to administrative cost claimed at an enhanced rate rather than the lesser administrative cost rate.

We also recommend that DHRS limit to the 50 percent rate claims for the Federal share of future indirect cost associated with Title IV-E training activities.

### **DHRS Comments**

The DHRS concurred with the recommendations. The DHRS said that this finding was a result of an oversight. The oversight occurred because administrative costs were not separated from direct costs. The DHRS said direct and indirect costs were separated when the OIG auditors notified them of the problem.

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

We request that you respond within 30 days from the date of this letter to the HHS action official shown below. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

Page 8 - Mr. Edward A. Feaver

To facilitate identification, please refer to Common Identification Number (CIN)  
A-04-95-00085 in any correspondence related to this report.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "Charles J. Curtis".

Charles J. Curtis  
Regional Inspector General  
for Audit Services, Region IV

**Direct Reply To:**

Regional Administrator  
Administration for Children  
and Families  
101 Marietta Tower, Suite 821  
Atlanta, Georgia 30323



STATE OF FLORIDA  
DEPARTMENT OF HEALTH AND REHABILITATIVE SERVICES

March 1, 1996

Mr. Charles J. Curtis  
Regional Inspector General  
for Audit Services  
Office of Inspector General  
Department of Health and Human Services  
Region IV  
P.O. Box 2047  
Atlanta, Georgia 30301

Dear Mr. Curtis:

This is a revised response to your letter dated December 15, 1995, which was received in my office on January 16, regarding the preliminary and tentative findings of your Review of Contracted Training Costs Allocated to Federally-Funded Programs Administered by the Florida Department of Health and Rehabilitative Services.

Thank you for the opportunity to respond to this audit. We look forward to discussing our responses with your staff at the exit conference scheduled March 8. We appreciate the work of your staff and will diligently pursue correction of outstanding deficiencies.

Sincerely,

*Edward A. Feaver*  
Edward A. Feaver  
Secretary

Enclosure

cc: Marta Hardy, Director  
Legislative Planning, HRS

MAR 0 1996

Response to Preliminary and Tentative Findings  
Review of Contracted Training Costs Allocated to  
Federally-Funded Programs Administered by the Florida  
Department of Health and Rehabilitative Services

#1           :       DHRS reported Title IV-E expenditures that  
              :       included \$626,071 (469,554) Federal Financial  
              :       Participation (FFP) administrative costs that  
              :       exceeded the maximum amount allowed under state  
              :       law. We recommend DHRS refund to the Federal  
              :       Government \$626,071 (\$469,554 FFP) of  
              :       unallowable match claimed.

**Response:**       We concur with the recommendation. The claims  
                  :       in question were stopped immediately upon  
                  :       notification by Health and Human Services (HHS)  
                  :       auditors during their exit conference during  
                  :       September 1995.

                  :       This finding is solely based on Florida Statute  
                  :       213.346 which limits the amount of "overhead or  
                  :       indirect costs for any other costs not required  
                  :       for the payment of direct costs" charged between  
                  :       state agencies (including the state university  
                  :       system) to no more than five percent of the  
                  :       total cost of the contract or overhead or  
                  :       indirect costs. We agree that the statute  
                  :       limits the amount of indirect costs one state  
                  :       agency can charge another; however, we do not  
                  :       believe the statute limits the total indirect  
                  :       costs which can be claimed. This issue has been  
                  :       raised to the HHS regional and central office  
                  :       since 1991.

                  :       A consensus response by HHS regional office,  
                  :       central office fiscal policy staff and the  
                  :       Office of General Counsel received on December  
                  :       7, 1995, upheld the review finding.

#2           :       We recommend DHRS make a financial adjustment of  
              :       \$148,627 (\$111,470, Federal share) for cost  
              :       reported in excess of cost recorded during SFY  
              :       1995. The DHRS should also identify and correct  
              :       the flaws in its new computerized grant  
              :       reporting system.

**Response:**       We concur with the recommendation. Additional  
                  :       research will be conducted to identify the  
                  :       apparent inconsistency in identifying costs that  
                  :       were reported in the computerized grant  
                  :       reporting system. At this time we concur with  
                  :       this disallowance. However, if future research  
                  :       results in documenting any of the disallowance  
                  :       as allowable costs, an amended report will be  
                  :       filed at that time.

Response to Preliminary and Tentative Findings  
Review of Contracted Training Costs Allocated to  
Federally-Funded Programs Administered by the Florida  
Department of Health and Rehabilitative Services

#3 : We recommend DHRS refund \$74,018 (FFP) applicable to administrative cost claimed at an enhanced rate rather than the lesser administrative cost rate. We also recommend that DHRS limit to the 50% rate claims for the Federal share of future indirect cost associated with Title IV-E training activities.

**Response:** We concur with the recommendations. This finding was the result of an oversight. The indirect administrative costs (50% rate) in the contract were not separated from direct costs. All direct costs were separated upon notification by HHS following their exit conference in September 1995. These costs are now split between different OCAs (Other Cost Accumulator) and the correct rates are being used.