

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF TITLE IV-E
TRAINING COSTS**

**MICHIGAN FAMILY
INDEPENDENCE AGENCY**



**JUNE GIBBS BROWN
Inspector General**

JUNE 1997
A-05-96-00043



DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V
105 W. ADAMS ST
CHICAGO, ILLINOIS 60603-6201

June 17, 1997

OFFICE OF
INSPECTOR GENERAL

Common Identification No. A-05-96-00043

Marva Livingston Hammons, Director
Michigan Family Independence Agency
235 South Grand Avenue
Lansing, Michigan 48909

Dear Ms. Hammons:

Enclosed are two copies of the Department of Health and Human Services, Office of Inspector General report entitled, "Review of Title IV-E Training Costs." The audit covered the period October 1, 1992 through September 30, 1995. Your attention is invited to the audit findings and recommendations contained in the report.

Final determinations as to actions to be 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), Office of Inspector General audit reports issued to the Department's grantees or contractors are made 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 the referenced common identification number in all correspondence relating to this report.

Sincerely,

A handwritten signature in cursive script that reads "Paul Swanson".

Paul Swanson
Regional Inspector General
for Audit Services

Enclosures

Direct reply to:
Regional Administrator
Administration for Children and Families
Region V, 20th Floor
105 West Adams
Chicago, Illinois 60603



DEPARTMENT OF HEALTH AND HUMAN SERVICES

REGION V
105 W ADAMS ST
CHICAGO, ILLINOIS 60603.620 1

June 17, 1997

OFFICE OF
INSPECTOR GENERAL

SUBJECT: Letter Report on Review of
Title IV-E Training Costs
Michigan Family Independence Agency
Lansing, Michigan
Common Identification No. A-05-96-00043

TO: Marva Livingston Hammons, Director
Michigan Family Independence Agency
235 South Grand Avenue
Lansing, Michigan 48909

This report provides you with the results of our review of training costs claimed by the Michigan Family Independence Agency (State agency) under the Title IV-E Foster Care and Adoption Assistance program. The audit objective was to determine whether the amounts claimed for reimbursement represent allowable and allocable costs.

The State agency claimed \$6,052,839 (Federal share - \$3,786,966) of direct and allocated training costs for the period October 1, 1992 through September 30, 1995. Of this amount, \$2,437,187 (Federal share - \$1,732,118) is ineligible for reimbursement.

The State agency provides various types of training for its employees, foster parents, adoptive parents, and other providers of foster care. Even though this training also benefitted other State programs, the costs of training were charged entirely to Title IV-E. During the course of our audit and in response to directions from the HHS Division of Cost Allocation, the State agency changed its allocation methodology and revised its claim for Title IV-E training. Our audit tests determined that the amount of the adjustment made for these costs was reasonable and equitable. We also determined that the State agency needs to make additional financial adjustments of \$568,010 (Federal share - \$334,257) for the overallocation of training costs provided by its Child Welfare Training Institute (CWTI) staff and \$48,067 (Federal Share - \$32,479) for a State-funded Delinquency Training program incorrectly charged to Title IV-E.

We are recommending that the HHS Administration for Children and Families accept the State agency's adjustment of \$1,365,382 and that the State agency (i) make a financial adjustment of \$334,257 to the Title IV-E program for the overstated costs applicable to training provided by their CWTI, (ii) make a financial adjustment of \$32,479 for the State-funded Delinquency Training program, and (iii) develop and implement a cost allocation methodology for distributing all training costs to benefitting programs.

INTRODUCTION

BACKGROUND

In June 1980, the Adoption Assistance and Child Welfare Act, Public Law 96-272, was enacted into law and established the Title IV-E program, "Federal Payments for Foster Care and Adoption Assistance." Under Section 474 of the Act, states are entitled to claim Federal financial participation (FFP) for their costs of training state personnel who administer the Title IV-E program. Eligible Title IV-E training costs are reimbursable at an enhanced Federal financial participation rate of 75 percent.

The Title IV-E program is administered at the Federal level by the HHS, Administration for Children and Families (ACF). The Family Independence Agency is the State agency responsible for administering the program in Michigan. Training activities are assigned to the State agency's Child Welfare Training Institute (CWTI) in the Office of Training and Staff Development. The CWTI staff conducts virtually all training for the State agency's employees and foster care providers. Outside consultants are used on a limited basis. The cost of the staff training is directly assigned and charged to Title IV-E.

During the period October 1, 1992 through September 30, 1995, the State agency submitted quarterly claims for reimbursement of Title IV-E training costs totaling \$6,052,839 (Federal share - \$3,786,966).

SCOPE

Our audit was conducted in accordance with generally accepted government auditing standards. The objective of our review was to determine whether training costs charged to Title IV-E were allowable and allocable and claimed for reimbursement at the proper FFP rate.

To accomplish our objective, we reviewed Federal regulations, program guidelines, cost allocation and training program plans, applicable financial and accounting records, and performed such other auditing procedures as we considered necessary in the circumstances. In addition, we discussed the scope and objective of our review with responsible Division of Cost Allocation and State agency officials. We also made a limited study and evaluation of the State agency's internal controls to assure the accuracy of its Title IV-E training claims. Our review of the internal control structure focused on examining the methodology followed by the State agency in preparing its claims. Our field work was performed during the period April 1996 to October 1996. Issuance of our draft report was delayed in order to consider the State agency's revisions to its cost allocation methodology and adjustments to costs claimed.

RESULTS OF REVIEW

The State agency did not allocate Title IV-E training costs to all benefitting programs as required by the Office of Management and Budget (OMB) Circular A-87 and ACF Policy Announcements. For the period October 1, 1992 through September 30, 1995, training costs of \$6,052,839 (Federal share - \$3,786,966) were claimed by the State agency. The amount claimed consists of both allocated (\$4,290,804) and direct (\$1,762,035) costs.

Costs Allocated to Training. The State agency allocated costs to Title IV-E training through its Cost Allocation Plan, but the costs were not properly distributed to all benefitting activities. The HHS Division of Cost Allocation directed the State agency to change its allocation methodology and revise its claim for reimbursement of these training costs. Consequently, during the course of our audit, the State agency reallocated the costs to all benefitting programs and made a financial adjustment of \$1,820,510 (Federal share - \$1,365,382) on its Financial Status Report for the quarter ended June 30, 1996.

Our audit tests determined that the amount of the adjustment was appropriate and reasonable.

Direct Training Costs. In addition to the above mentioned adjustment, which relates only to allocated training costs, we determined that the State agency needs to make an additional financial adjustment of \$366,736 FFP for overstated direct costs of training provided by its CWTI staff. The costs of training provided by the CWTI staff are charged directly to the Title IV-E program. Based on our review of the training activities performed by CWTI staff, the Title IV-E training plans, and other training materials, we determined that the staff's efforts involve training in areas other than Title IV-E, such as State-funded foster care. Accordingly, the distribution of these costs solely to the Title IV-E program does not comply with OMB Circular A-87, Attachment A, Section C.3.a, which states:

...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....

Additionally, ACF issued three policy announcements (ACYF-PA-87-05; ACYF-PA-90-01; ACF-IM-91-15) concerning the allocation of foster care and adoption assistance costs. These announcements state that training costs must be allocated among all benefitting programs.

With respect to the direct charges of \$1,762,035 for Title IV-E training, we identified and excluded direct charges of \$48,067 associated with a totally State-funded program. The balance of \$1,713,968 was then distributed between Title IV-E and State programs based on the ratio of Title IV-E children to total foster care children in the State. The application of the FFP

rates to the Title IV-E share of costs results in the adjustments presented below.

	<u>Fiscal Year</u>			<u>Total</u>
	<u>1993</u>	<u>1994</u>	<u>1995</u>	
Direct charges	\$446,454	\$623,628	\$691,953	\$1,762,035
Less: Unallowable costs	<u>14,284</u>	<u>14,155</u>	<u>19,628</u>	<u>48,067</u>
Subtotal	432,170	609,473	672,325	<u>\$1,713,968</u>
IV-E participant ratio	<u>68%</u>	<u>67%</u>	<u>66%</u>	
Costs eligible for FFP	293,876	408,347	443,735	<u>\$1,145,958</u>
Applicable FFP Rate (1)	<u>75%</u>	<u>75%</u>	<u>75%</u>	
Amount allowable-FFP	220,407	306,260	332,801	859,468
Amount claimed-FFP	<u>207,039</u>	<u>467,721</u>	<u>518,965</u>	<u>1,193,725</u>
Financial adjustment	<u>\$(13,368)</u>	<u>\$161,461</u>	<u>\$186,164</u>	<u>\$ 334,257</u>

Note (1) : The State agency's claim for FY 1993 was based on application of an FFP rate of 50% to eligible training costs incurred by the CWTI staff. The CWTI costs represent expenditures of personnel employed by the State which are eligible for FFP at the rate of 75%. The OIG auditor's calculation reflects allowable costs based on the higher FFP rate of 75%.

State Funded Program. The State agency claimed Delinquency Training program costs of \$48,067 (Federal share - \$32,479). This program is a State-funded training program unrelated to Title IV-E activities, and the costs are not eligible for Federal reimbursement.

RECOMMENDATIONS

We recommend that the HHS Administration for Children and Families accept the financial adjustment of \$1,820,510 (Federal share - \$1,365,382) made by the State agency during the course of our audit. We also recommend that the State agency:

- Make a financial adjustment of \$568,010 (Federal share - \$334,257) to the Title IV-E program for directly charged training costs of the CWTI that are allocable to other programs.
- Make a financial adjustment of \$48,067 (Federal share - \$32,479) to Title IV-E for claimed costs associated with the Delinquency Training program.
- Develop and implement a cost allocation methodology for distributing all training costs to benefitting programs.

STATE AGENCY RESPONSE

Exit conferences were held with State agency officials on May 8, 1997 and May 21, 1997. They did not provide us with a written response to our draft audit report. State agency officials told us that they concurred with our audit recommendation concerning the financial adjustment of \$1,365,382 which was based on a reallocation of training costs to all benefitting activities. They also concurred in our recommended adjustment of \$32,479 for costs applicable to the State-funded Delinquency Training program. Although State officials generally agreed with our finding concerning redistribution of direct training costs of its CWTI staff to all benefitting programs, they indicated that use of IV-E participant ratios to reallocate costs (see Schedule on page 4) might not be equitable. They suggested that a weighted average allocation basis be used which recognizes a higher concentration of Title IV-E services in the Detroit area. The State agency will re-evaluate its allocation methodology and provide the results to the Regional ACF Action Official for resolution.



Paul Swanson
Regional Inspector General
for Audit Services

STATEMENT OF COSTS CLAIMED AND
 RELATED FINANCIAL ADJUSTMENTS
 FOR TITLE IV-E TRAINING COSTS

FOR THE PERIOD
 OCTOBER 1, 1992 THROUGH SEPTEMBER 30, 1995

MICHIGAN FAMILY INDEPENDENCE AGENCY
 LANSING, MICHIGAN

	<u>Claimed</u>	<u>Accepted</u>	<u>Financial Adjustment</u>	<u>FFP</u>
Allocated costs	\$4,290,804	\$2,470,294	\$1,820,510	\$1,365,382
Direct costs	1,713,968	1,145,958	568,010	334,257
State program costs	<u>48,067</u>	<u>-0-</u>	<u>48,067</u>	<u>32,479</u>
Totals	<u>\$6,052,839</u>		<u>\$2,437,187</u>	<u>\$1,732,118</u>
Adjustment made to 6/30/96 FSR			(1,820,510)	(1,365,382)
Additional adjustment per auditor			<u>\$ 616.677</u>	<u>\$ 366,736</u>