



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Washington, D.C. 20201

February 3, 2010

TO: Maiso Bryant
Acting Commissioner
Administration on Children, Youth and Families
Administration for Children and Families

FROM: /Joseph E. Vengrin/
Deputy Inspector General for Audit Services

SUBJECT: Review of the Missouri Department of Social Services Claim for Title IV-E Training Costs for Long-Term Training for July 1, 2002, Through June 30, 2006 (A-07-09-03120)

Attached is an advance copy of our final report on the Missouri Department of Social Services (the State agency) claim for Title IV-E training costs for long-term training for July 1, 2002, through June 30, 2006. We will issue this report to the State agency within 5 business days.

Federal regulations specify that training expenditures must be included in the Administration for Children and Families (ACF)-approved State training plan to be claimed at the enhanced 75-percent Federal financial participation (FFP) rate. Also, pursuant to Federal regulations, States may receive reimbursement at an enhanced 75-percent FFP rate for the costs of short- and long-term training at educational institutions. The regulations specify who may be trained and the expenses that are allowable.

From July 1, 2002, through June 30, 2006, the State agency claimed \$7,250,784 (\$5,438,088 Federal share) in Title IV-E long-term training costs at the enhanced 75-percent FFP rate. Our audit covered \$3,019,832 (Federal share) of these costs related to three universities under contract with the State agency (including the University of Missouri–Columbia (MU)) and to the salaries and benefits of State agency personnel obtaining their Master’s of Social Work degree.

Our objective was to determine whether selected Title IV-E costs that the State agency claimed for long-term training at the enhanced 75-percent FFP rate from July 1, 2002, through June 30, 2006, were allowable.

Of the \$3,019,832 (Federal share) in Title IV-E training costs that the State agency claimed for long-term training at the enhanced 75-percent FFP rate from July 1, 2002, through June 30, 2006, \$1,712,563 was allowable. However, \$301,187 was unallowable:

- The State agency claimed \$290,713 in enhanced funding for indirect costs paid to the three selected universities. Federal regulations as interpreted by Departmental Appeals Board decisions provide that indirect costs are not allowable at the enhanced training rate if they are calculated from an indirect cost pool that contains administrative costs that are not allowable as training costs.
- The State agency claimed \$10,474 for MU's direct and indirect costs that were not adequately documented or were in excess of the amount that MU should have claimed under its negotiated agreement with the U.S. Department of Health and Human Services, Division of Cost Allocation, and its contracts with the State agency.

In addition, \$1,006,082 was potentially unallowable because the costs were not properly allocated to all benefiting programs as required by Federal regulations.

The State agency claimed unallowable and potentially unallowable costs because it did not have adequate policies and procedures to ensure compliance with Federal requirements.

We recommend that the State agency:

- adjust its next *Title IV-E Foster Care and Adoption Assistance Financial Report* to reduce Federal reimbursement claimed for Title IV-E training by \$301,187 (Federal share),
- work with ACF to determine an appropriate methodology to allocate \$1,509,036 (\$1,006,082 Federal share) in long-term training costs and make appropriate financial adjustments and revisions to the cost allocation plan as necessary, and
- strengthen its policies and procedures to ensure that it claims Federal reimbursement for Title IV-E training in accordance with Federal requirements and contractual provisions.

In written comments on our draft report, the State agency generally disagreed with our first two recommendations and agreed with our third recommendation. After reviewing the State agency's comments, we maintain that our findings and recommendations are valid.

If you have any questions or comments about this report, please do not hesitate to call me, or your staff may contact Lori S. Pilcher, Assistant Inspector General for Grants, Internal Activities, and Information Technology Audits, at (202) 619-1175 or through email at Lori.Pilcher@oig.hhs.gov or Patrick J. Cogley, Regional Inspector General for Audit Services, Region VII, at (816) 426-3591 or through email at Patrick.Cogley@oig.hhs.gov. Please refer to report number A-07-09-03120.

Attachment



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General

Office of Audit Services, Region VII
601 East 12th Street, Room 0429
Kansas City, MO 64106

February 10, 2010

Report Number: A-07-09-03120

Mr. Ronald J. Levy
Director
Missouri Department of Social Services
Broadway State Office Building
P.O. Box 1527
Jefferson City, Missouri 65102-1527

Dear Mr. Levy:

Enclosed is the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), final report entitled *Review of the Missouri Department of Social Services Claim for Title IV-E Training Costs for Long-Term Training for July 1, 2002, Through June 30, 2006*. We will forward a copy of this report to the HHS action official noted on the following page for review and any action deemed necessary.

The HHS action official will make final determination as to actions taken on all matters reported. We request that you respond to this 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.

Section 8L of the Inspector General Act, 5 U.S.C. App., requires that OIG post its publicly available reports on the OIG Web site. Accordingly, this report will be posted at <http://oig.hhs.gov>.

If you have any questions or comments about this report, please do not hesitate to call me at (816) 426-3591, or contact Greg Tambke, Audit Manager, at (573) 893-8338, extension 30, or through email at Greg.Tambke@oig.hhs.gov. Please refer to report number A-07-09-03120 in all correspondence.

Sincerely,

/Patrick J. Cogley/
Regional Inspector General
for Audit Services

Enclosure

Direct Reply to HHS Action Official:

Ms. Nancy Long
Acting Regional Administrator, Region VII
Administration for Children and Families
601 East 12th Street, Room 276
Kansas City, Missouri 64106-2808

Department of Health & Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF THE MISSOURI
DEPARTMENT OF SOCIAL
SERVICES CLAIM FOR TITLE IV-E
TRAINING COSTS FOR
LONG-TERM TRAINING FOR
JULY 1, 2002, THROUGH
JUNE 30, 2006**



Daniel R. Levinson
Inspector General

February 2010
A-07-09-03120

Office of Inspector General

<http://oig.hhs.gov>

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EXECUTIVE SUMMARY

BACKGROUND

Title IV-E of the Social Security Act, as amended, authorizes Federal funds for States to provide foster care and adoption assistance to children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the program. In Missouri, the Department of Social Services (the State agency) administers the program. Title IV-E provides Federal financial participation (FFP) at a 50-percent rate for administrative expenditures and at an enhanced 75-percent rate for certain training expenditures.

Federal regulations specify that training expenditures must be included in the approved State training plan to be claimed at the enhanced 75-percent FFP rate. Also, pursuant to Federal regulations, States may receive reimbursement at an enhanced 75-percent FFP rate for the costs of short- and long-term training at educational institutions. The regulations specify who may be trained and the expenses that are allowable.

The State agency contracted with six State universities to provide long-term training programs. The programs allowed undergraduate students in their senior year to complete their Bachelor's of Social Work degree and then begin employment with the State and allowed current State employees to obtain a Master's of Social Work degree.

From July 1, 2002, through June 30, 2006, the State agency claimed \$7,250,784 (\$5,438,088 Federal share) in Title IV-E long-term training costs at the enhanced 75-percent FFP rate. Our audit covered \$3,019,832 (Federal share) of these costs related to three universities under contract with the State agency (the University of Missouri–Columbia (MU), the University of Missouri at St. Louis, and Missouri State University) and to the salaries and benefits of State agency personnel obtaining their Master's of Social Work degree.

OBJECTIVE

Our objective was to determine whether selected Title IV-E costs that the State agency claimed for long-term training at the enhanced 75-percent FFP rate from July 1, 2002, through June 30, 2006, were allowable.

SUMMARY OF FINDINGS

Of the \$3,019,832 (Federal share) in Title IV-E training costs that the State agency claimed for long-term training at the enhanced 75-percent FFP rate from July 1, 2002, through June 30, 2006, \$1,712,563 was allowable. However, \$301,187 was unallowable:

- The State agency claimed \$290,713 in enhanced funding for indirect costs paid to the three selected universities. Federal regulations as interpreted by Departmental Appeals Board decisions provide that indirect costs are not allowable at the enhanced training rate if they are calculated from an indirect cost pool that contains administrative costs that are not allowable as training costs.

- The State agency claimed \$10,474 for MU’s direct and indirect costs that were not adequately documented or were in excess of the amount that MU should have claimed under its negotiated agreement with the U.S. Department of Health and Human Services, Division of Cost Allocation, and its contracts with the State agency.

In addition, \$1,006,082 was potentially unallowable because the costs were not properly allocated to all benefiting programs as required by Federal regulations.

The State agency claimed unallowable and potentially unallowable costs because it did not have adequate policies and procedures to ensure compliance with Federal requirements.

RECOMMENDATIONS

We recommend that the State agency:

- adjust its next *Title IV-E Foster Care and Adoption Assistance Financial Report* to reduce Federal reimbursement claimed for Title IV-E training by \$301,187 (Federal share),
- work with ACF to determine an appropriate methodology to allocate \$1,509,036 (\$1,006,082 Federal share) in long-term training costs and make appropriate financial adjustments and revisions to the cost allocation plan as necessary, and
- strengthen its policies and procedures to ensure that it claims Federal reimbursement for Title IV-E training in accordance with Federal requirements and contractual provisions.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In comments on our draft report, the State agency generally disagreed with our first two recommendations because, according to the State agency, the findings involved the application of Federal cost principles to fixed-fee contracts. The State agency agreed with our third recommendation. The State agency’s comments are included in their entirety as Appendix B.

We reviewed the contracts between the State agency and the universities and determined that they were cost-reimbursement rather than fixed-fee contracts. Cost-reimbursement contracts are subject to Federal cost principles. Therefore, our findings and recommendations remain unchanged.

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INTRODUCTION

BACKGROUND

Title IV-E Program

Title IV-E of the Social Security Act (the Act), as amended, authorizes Federal funds for States to provide foster care and adoption assistance to children under an approved State plan. At the Federal level, the Administration for Children and Families (ACF) administers the program. In Missouri, the Department of Social Services (the State agency) administers the program.

Federal funds are available to States for the following Title IV-E administrative and training costs:

- Allowable administrative costs include staff activities such as case management and supervision of children placed in foster care or considered to be Title IV-E candidates, preparation for and participation in court hearings, placements of children, and licensing of foster homes and institutions. The Federal financial participation (FFP) rate for administrative costs allocable to the Title IV-E program is 50 percent.
- Allowable administrative costs that qualify as training costs include the training of personnel employed or preparing for employment by the State or local agency administering the State training plan and the training of current or prospective foster care or adoptive parents, as well as personnel of childcare institutions. Certain of these State training costs qualify for an enhanced 75-percent FFP rate.

Pursuant to Federal regulations (45 CFR part 95, subpart E), States must allocate costs to the Title IV-E program in accordance with a public assistance cost allocation plan approved by the U.S. Department of Health and Human Services, Division of Cost Allocation (DCA), after ACF reviews and comments on the fairness of the cost allocation methodologies. Federal regulations (45 CFR §§ 74.27 and 92.22) also require that costs be allocated according to the accounting principles and standards in Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*. Section C of Attachment A of the circular requires that costs be allocated to programs based on the relative benefits received and be adequately documented. Section 8.1H of ACF's *Child Welfare Policy Manual* states that training costs must be allocated to benefiting programs and describes allowable administrative costs.

States submit the *Title IV-E Foster Care and Adoption Assistance Financial Report* (ACF-IV-E-1 report) on a quarterly basis to claim Federal reimbursement for Title IV-E costs.

Federal Reimbursement Requirements

Section 474(a)(3) of the Act and Federal regulations (42 CFR § 1356.60(b)) authorize Federal reimbursement to a State at an enhanced 75-percent FFP rate for amounts expended “for the proper and efficient administration of the State plan” if the expenditures are for the short-term or

long-term training of personnel employed or preparing for employment by the State or local agency administering the Title IV-E program, for the short-term training of current or prospective foster or adoptive parents, or for the short-term training of staff members of certain State-licensed or State-approved childcare institutions.

Federal regulations (45 CFR § 1356.60(b)) require that inservice training and short- and long-term training at educational institutions be provided pursuant to 45 CFR §§ 235.63–235.66(a). These regulations list certain activities and costs that are eligible for the enhanced FFP rate. For training at educational institutions, the activities listed in 45 CFR § 235.64 as being allowable as training costs include salaries, fringe benefits, tuition, and books for employees and salaries, fringe benefits, and teaching materials for instructors. For inservice training activities or training activities at educational institutions that are not included in 45 CFR § 235.64, section 474(a)(3)(E) of the Act and 45 CFR § 1356.60(c) authorize reimbursement to States at a 50-percent FFP rate for allowable administrative expenditures.

Pursuant to 45 CFR § 1356.60(b)(2), all training activities and costs charged to the Title IV-E program must be included in the State’s training plan.¹ The State’s training plan must describe the training activities and costs that will be charged to the Title IV-E program at the enhanced 75-percent FFP rate.

Missouri Department of Social Services Contracts for Long-Term Training

The State agency contracted with six State universities to provide long-term training. The 1-year contracts (and subsequent amendments) provide for training under the Bachelor’s of Social Work degree (bachelor’s degree) program and/or the Master’s of Social Work degree (master’s degree) program:

- The bachelor’s degree program allowed undergraduate students in their senior year to complete their degree and then begin employment with the State. Students selected for the program signed contracts obligating them to work for the State agency for a minimum of 2 years after graduation. The universities paid for students’ stipends and for the salaries, fringe benefits, and indirect costs associated with the faculties that taught the courses. In turn, the State agency reimbursed the universities for Title IV-E training costs, excluding the universities’ share. The bachelor’s degree program did not cover student tuition.
- The master’s degree program allowed current State employees to obtain a master’s degree. Employees selected for the program signed contracts obligating them to work for the State agency for a minimum of 3 years after graduation. The universities paid for the State employees’ tuition costs and for the salaries, fringe benefits, and indirect costs associated with the faculties that teach the courses. In turn, the State agency reimbursed the universities for Title IV-E training costs, excluding the universities’ share. The State agency continued to pay the State employees’ salaries and fringe benefits.

¹The State agency submitted a training plan to ACF for approval for each Federal fiscal year included in this review (2002 through 2006).

The salaries, fringe benefits, and indirect costs associated with the faculties accounted for the majority of the contract costs for both programs.

OBJECTIVE, SCOPE, AND METHODOLOGY

Objective

Our objective was to determine whether selected Title IV-E costs that the State agency claimed for long-term training at the enhanced 75-percent FFP rate from July 1, 2002, through June 30, 2006, were allowable.

Scope

We judgmentally selected three State universities that participated in both long-term training programs: the University of Missouri–Columbia (MU), the University of Missouri at St. Louis, and Missouri State University.

From July 1, 2002, through June 30, 2006, the State agency claimed a total of \$30,556,399 (\$22,917,299 Federal share) in Title IV-E training costs, including \$7,250,784 (\$5,438,088 Federal share) for long-term training at the enhanced 75-percent FFP rate. Our audit covered \$3,019,832 (Federal share) of these long-term training costs, including:

- \$2,138,911 for all Title IV-E long-term training costs (direct and indirect) at MU,
- \$773,993 for the salaries and benefits of current State employees in the master’s degree program, and
- \$106,928 for indirect costs associated with long-term training at the University of Missouri at St. Louis and Missouri State University.²

We did not review \$2,418,256 (Federal share) claimed for direct costs at the University of Missouri at St. Louis and Missouri State University and for the long-term training programs at the three other State universities under contract with the State agency.

We separately reviewed the remaining Title IV-E training costs that the State agency claimed during our audit period (costs allocated from the Social Services Cost Pool,³ salaries and benefits associated with initial inservice training of State agency employees, and costs for foster care parent training and residential treatment centers’ training). We addressed those costs in three separate reports.

²The \$106,928 represents the difference between the funds received at the enhanced 75-percent FFP rate and the funds that should have been received at the administrative 50-percent FFP rate for the indirect costs at the University of Missouri at St. Louis and Missouri State University.

³The Social Services Cost Pool consisted of the State agency’s proportionate share of county overhead and indirect expenses.

We reviewed internal controls to the extent necessary to accomplish the audit objective.

We performed fieldwork at the State agency in Jefferson City, Missouri, and at MU in Columbia, Missouri.

Methodology

To accomplish our objective, we:

- reviewed applicable Federal laws, regulations, and policy directives, as well as State training plans, U.S. Department of Health and Human Services Departmental Appeals Board (DAB) decisions, and the State's approved cost allocation plan;
- judgmentally selected the three universities in Missouri that charged the highest amounts of Title IV-E long-term training costs to the State agency;
- interviewed officials of ACF, the State agency, and MU to gain an understanding of the State agency's Title IV-E training program and its policies and procedures;
- reviewed the State agency's methods for recording and allocating training costs;
- reviewed the ACF-IV-E-1 reports and supporting quarterly cost allocation reports and compared the amounts claimed with the State agency's accounting records;
- visited MU and reviewed its Title IV-E training costs claimed to the State agency, as well as its contract with the State agency;
- reviewed the invoices from the University of Missouri at St. Louis and Missouri State University to identify the universities' indirect costs associated with Title IV-E training;
- judgmentally selected for review MU's invoices for both the bachelor's and master's degree programs and traced the amounts claimed to supporting documentation; and
- determined the amount of indirect costs that the three selected universities claimed at the enhanced 75-percent FFP rate.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

FINDINGS AND RECOMMENDATIONS

Of the \$3,019,832 (Federal share) in Title IV-E training costs that the State agency claimed for long-term training at the enhanced 75-percent FFP rate from July 1, 2002, through June 30, 2006, \$1,712,563 was allowable. However, \$301,187 was unallowable:

- The State agency claimed \$290,713 in enhanced funding for indirect costs paid to the three selected universities. Federal regulations as interpreted by DAB decisions provide that indirect costs are not allowable at the enhanced training rate if they are calculated from an indirect cost pool that contains administrative costs that are not allowable as training costs.
- The State agency claimed \$10,474 for MU's direct and indirect costs that were not adequately documented or were in excess of the amount that MU should have claimed under its negotiated agreement with DCA and its contracts with the State agency.

In addition, \$1,006,082 was potentially unallowable because the costs were not properly allocated to all benefiting programs as required by Federal regulations.

Our findings are summarized in Appendix A.

The State agency claimed unallowable and potentially unallowable costs because it did not have adequate policies and procedures to ensure compliance with Federal requirements.

UNALLOWABLE COSTS CLAIMED FOR LONG-TERM TRAINING

The State agency claimed \$301,187 in unallowable Title IV-E training costs, including indirect costs that were not authorized for reimbursement at the enhanced rate, inadequately documented direct costs, and indirect costs that were claimed on an incorrect cost base.

Unallowable Enhanced Funding Claimed for Universities' Indirect Costs

Section 474(a)(3)(E) of the Act and 45 CFR §1356.60(c) provide for a 50-percent Federal reimbursement rate for administrative expenditures, including "[a] proportionate share of related agency overhead."

Regulations (45 CFR § 1356.60(b)(3)) state that costs for short-term and long-term training at educational institutions and inservice training may be claimed at the enhanced FFP rate if the costs are listed in 42 CFR § 235.64.

The DAB has ruled that training costs may also be claimed indirectly. However, the DAB has also ruled that the enhanced rate is not available for indirect costs that were developed from cost pools consisting of both allowable training costs and other administrative costs. For example,⁴

⁴See also Illinois Dept. of Children and Family Services, DAB No. 1530 (1995), in which the DAB stated that "in order to claim FFP at [the enhanced rate for training costs], Illinois would have to show that its indirect costs consisted entirely of allowable costs."

in New Mexico Children, Youth and Families Department, DAB No. 2159 (2008), the DAB ruled that training costs may not be claimed indirectly at the enhanced rate if these indirect costs were developed from cost pools containing administrative costs that are ineligible for the enhanced FFP rate. Specifically, the DAB ruled:

The issue raised by the audit is whether **all** indirect costs of a university that are allocable to title IV-E training contracts are reimbursable at the enhanced rate. The answer to that question is clearly “no.” . . . [Emphasis in original]

Under OMB Circular A-21, the costs that are ultimately pooled together in order to determine a university’s F&A [facilities and administration] (indirect cost) rate could include many categories of costs, such as depreciation or a use allowance on buildings or equipment, interest on debt associated with certain buildings, operation and maintenance expenses, general administration, and student administration and services. OMB Circular A-21, Attachment, ¶ F.1. These categories include types of costs that are not listed in the applicable regulations as training costs reimbursable at the 75% enhanced rate.

Contrary to these requirements, the State agency claimed \$290,713 (Federal share)⁵ in unallowable enhanced funding for indirect costs paid to the three selected universities. Specifically, the State agency claimed indirect costs totaling \$1,162,855 (\$872,141 Federal share) as Title IV-E training costs at the enhanced 75-percent FFP rate. The universities had claimed these costs for both the bachelor’s and the master’s degree programs based on negotiated agreements with DCA. Because these costs were developed from cost pools containing costs unallowable as training costs, they were allowable for Federal reimbursement only at the administrative 50-percent FFP rate and unallowable at the enhanced 75-percent FFP rate.

Pursuant to Federal law and regulations, these indirect costs should have been claimed at the administrative 50-percent FFP rate. The \$290,713 (Federal share) that we are questioning represents the difference between the \$872,141 claimed at the enhanced 75-percent FFP rate and the \$581,428 that should have been claimed at the administrative 50-percent FFP rate.

Inadequately Documented Costs Claimed by the University of Missouri–Columbia

OMB Circular A-87, Attachment A, section C, which applies to States, provides: “To be allowable under Federal awards, costs must meet the following general criteria: . . . (j) Be adequately documented.” OMB Circular A-21, section A.2.e, which applies to universities, provides that universities “must provide for adequate documentation to support costs charged to sponsored agreements.”

The State agency claimed \$13,770 (\$9,191 Federal share) in unallowable long-term direct and indirect training costs. Because MU did not adequately document the direct costs, they did not qualify for Federal reimbursement. A total of \$9,219 (\$6,915 Federal share) in direct costs did not have any supporting documentation, including:

⁵This amount comprised \$183,785 for MU, \$87,744 for the University of Missouri at St. Louis, and \$19,184 for Missouri State University.

- \$6,105 (\$4,580 Federal share) for the costs of travel, materials, and supplies claimed under the master’s degree program and
- \$3,114 (\$2,335 Federal share) for salaries, fringe benefits, and software costs claimed under the bachelor’s degree program.

Based on MU’s negotiated agreement with DCA, we determined that associated indirect costs amounted to \$4,551 (\$2,276 Federal share).⁶ Thus, the unallowable direct and indirect costs totaled \$13,770 (\$9,191 Federal share).

Unallowable Indirect Costs Claimed by the University of Missouri–Columbia

Section G.11 of OMB Circular A-21, which applies to universities, requires that universities negotiate an indirect cost rate with the Federal Government. Specifically, DCA negotiates indirect cost rate agreements with universities. Section G.2 requires that indirect costs be distributed on the basis of modified total direct costs.⁷

The State agency claimed \$2,564 (\$1,283 Federal share) in unallowable long-term indirect training costs submitted by MU for both the bachelor’s and master’s degree programs that did not comply with the contractual provisions or the negotiated agreement with DCA because MU claimed the costs on an incorrect base.⁸

Master’s Degree Program

Although the contract between MU and the State agency for the master’s degree program permitted indirect costs to be reimbursed for equipment costs, the negotiated agreement with DCA did not. In accordance with section G.2 of OMB Circular A-21, the negotiated agreement required that indirect costs be calculated based on modified total direct costs, which do not include the costs of equipment. By applying the methodology in the contract, contrary to the negotiated agreement, the State agency incorrectly received reimbursement totaling \$565 (\$283 Federal share) as Title IV-E training costs for MU’s indirect costs for the master’s degree program.

Bachelor’s Degree Program

The contract between MU and the State agency for the bachelor’s degree program permitted indirect costs to be claimed only on salaries and benefits, which was more restrictive than the requirements in the negotiated agreement with DCA. The negotiated agreement provided for the application of modified total direct costs. As a result, we accepted all indirect costs that were

⁶We questioned the enhanced portion of these costs in the finding titled “Unallowable Enhanced Funding Claimed for Universities’ Indirect Costs.” We are questioning the nonenhanced portion here.

⁷Modified total direct costs consist of all salaries and wages, fringe benefits, materials, supplies, services, travel, and the first \$25,000 of each subgrant and subcontract. Modified total direct costs exclude equipment.

⁸We questioned the enhanced portion of these costs in the “Unallowable Enhanced Funding Claimed for Universities’ Indirect Costs” finding. We are questioning the administrative (that is, nonenhanced) portion here.

claimed in accordance with the contract. However, we did not accept the inclusion of costs apart from salaries and benefits because, although such costs would have been allowable under the negotiated agreement, they were not costs to which MU was entitled under its contract with the State agency. As a result, we determined that the State agency received reimbursement for \$1,999 (\$1,000 Federal share) in unallowable Title IV-E training costs.

POTENTIALLY UNALLOWABLE COSTS CLAIMED FOR LONG-TERM TRAINING

The State agency claimed \$1,509,036 (\$1,006,082 Federal share) in potentially unallowable Title IV-E training costs for salaries, fringe benefits, and associated indirect costs for MU instructors under both the bachelor's and master's degree programs. These costs were potentially unallowable because they were improperly allocated to the benefiting programs.

Federal Requirements and Guidelines

Federal regulations (45 CFR § 95.507(a)(1) and (2)) require the State agency to submit a cost allocation plan that describes the procedures used to identify, measure, and allocate all costs to each program it operates. The regulations also require the State agency to conform to the accounting principles and standards prescribed in OMB Circular A-87 and pertinent Department regulations and instructions.

OMB Circular A-87, Appendix A, section C.3.a., 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." Consistent with the provisions of the circular, ACF's Information Memorandum ACF-IM-91-15, issued July 24, 1991, states: "Training costs for all training, including long-term educational training (degree programs), must be allocated among all benefiting programs and may not be direct-charged to title IV-E, unless title IV-E is the only benefiting program."⁹

Improper Allocation of Costs

The State agency's approved cost allocation plan did not contain any procedures to identify, measure, and allocate the long-term training costs from MU (or any other State university) to Title IV-E training.

The State agency claimed \$1,509,036 (\$1,006,082 Federal share) as MU's Title IV-E training for salaries, fringe benefits, and associated indirect costs. Of this amount, \$799,132 (\$532,744 Federal share) represented the costs for three instructors for the master's degree program and one instructor for the bachelor's degree program whose entire salaries were invoiced to and paid by the State agency. These instructors taught classes not only to students who had agreed to work

⁹We would have reported a similar finding under ACF's earlier (1985) policy governing the allocation of training costs, which was replaced by ACF Policy Announcement ACYF-PA-90-01. Under the earlier policy, training costs were to be allocated among benefiting programs unless at least 85 percent of training costs were attributable to Title IV-E. (See October 7, 1985, memorandum from the Commissioner of ACF's Administration on Children, Youth and Families.)

for the State agency after graduation but also to students who were not part of these programs and who were not contractually obligated to the State agency. An MU official informed us in a February 20, 2008, email that “No course is limited only to Title IVE students. Child welfare is a major subset of the profession of social work and there are students other than those supported by Title IVE who have strong interest in specializing in child welfare.”

To claim Title IV-E training costs, the State agency adjusted the amount paid to the universities to account for cost sharing by dividing the amount paid by 75 percent. The State agency then applied a penetration rate to determine the claim amount. The penetration rate was calculated by dividing the number of children who qualified for Title IV-E assistance by the total number of foster care children statewide.

The penetration rate would have been useful in allocating costs among State employees who worked on Title IV-E and non-Title IV-E programs, but it did not account for the fact that some students being taught by the four instructors would never work for the State agency. Statistics from the Department of Labor, Bureau of Labor Statistics, indicate that only 30 percent of social workers will ultimately work for either State or local government agencies. To properly allocate costs among all benefiting programs as required, the State agency should have allocated on the basis of both the penetration rate and the number of prospective and current State employees in relation to total students in a class.

Because we could not determine what portion of these costs should have been allocated to Title IV-E, we are setting aside for ACF adjudication the \$1,509,036 (\$1,006,082 Federal share) that the State agency claimed for MU’s instructor salaries, fringe benefits, and associated indirect costs.¹⁰

INADEQUATE POLICIES AND PROCEDURES

The State agency did not have policies and procedures to ensure that its staff correctly claimed indirect costs at the administrative 50-percent FFP rate. As a result, the State agency claimed all indirect costs associated with the direct costs that were eligible for enhanced funding at the enhanced 75-percent FFP rate.

Further, MU’s policies and procedures were not adequate to ensure that its staff maintained documentation to support MU’s claim for Federal reimbursement. Additionally, the State agency’s policies and procedures were not adequate to ensure that MU claimed indirect costs pursuant to contractual provisions and MU’s negotiated agreement with DCA.

Finally, the State agency did not properly allocate long-term training costs to all benefiting programs because its approved cost allocation plan did not contain any procedures for identifying, measuring, and allocating the long-term training costs from MU (or any other State university) to Title IV-E training.

¹⁰We questioned the enhanced portion of the associated indirect costs in the “Unallowable Enhanced Funding Claimed for Universities’ Indirect Costs” finding. We are setting aside the nonenhanced portion here.

RECOMMENDATIONS

We recommend that the State agency:

- adjust its next ACF-IV-E-1 report to reduce Federal reimbursement claimed for Title IV-E training by \$301,187 (Federal share),
- work with ACF to determine an appropriate methodology to allocate \$1,509,036 (\$1,006,082 Federal share) in long-term training costs and make appropriate financial adjustments and revisions to the cost allocation plan as necessary, and
- strengthen its policies and procedures to ensure that it claims Federal reimbursement for Title IV-E training in accordance with Federal requirements and contractual provisions.

STATE AGENCY COMMENTS AND OFFICE OF INSPECTOR GENERAL RESPONSE

In comments on our draft report, the State agency generally disagreed with our first two recommendations because, according to the State agency, the findings involved the application of Federal cost principles to fixed-fee contracts. The State agency agreed with our third recommendation. The State agency's comments are included in their entirety as Appendix B.

We reviewed the contracts between the State agency and the universities and determined that they were cost-reimbursement rather than fixed-fee contracts. Cost-reimbursement contracts are subject to Federal cost principles. Therefore, our findings and recommendations remain unchanged.

APPENDIXES

APPENDIX A: SUMMARY OF AUDIT RESULTS

**Title IV-E Training Costs Claimed for
Long-Term Training for the Period
July 1, 2002, Through June 30, 2006**

	Federal Share			
	Reviewed	Questioned	Set Aside	Allowable
Direct costs				
Salaries and benefits of State employees in the master's degree program	\$773,993			\$773,993
Long-term training at University of Missouri–Columbia	1,403,772	\$6,915	\$754,693	642,164
Indirect costs				
Long-term training:				
University of Missouri–Columbia	735,139	187,344 ¹	251,389	296,406
University of Missouri at St. Louis	87,744	87,744 ²		
Missouri State University	19,184	19,184 ²		
Total	\$3,019,832	\$301,187	\$1,006,082	\$1,712,563

¹This amount consisted of \$183,785 in unallowable enhanced payments for indirect costs, \$2,276 in unallowable indirect costs associated with direct costs of \$6,915, and \$1,283 in unallowable indirect costs that the University of Missouri–Columbia incorrectly claimed.

²These indirect costs represent the unallowable portion of total indirect costs claimed at the enhanced rate.

APPENDIX B: AUDITEE COMMENTS



JEREMIAH W. (JAY) NIXON, GOVERNOR • RONALD J. LEVY, DIRECTOR

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October 23, 2009

Patrick J. Cogley
Regional Inspector General for Audit Services
Department of Health and Human Services
Office of Inspector General, Offices of Audit Services, Region VII
601 East 12th Street, Room 249
Kansas City, MO 64106

Re: *Review of the Missouri Department of Social Services Claim for Title IV-E Training
Costs for Long-Term Training for July 1, 2002 Through June 30, 2006
Report No. A-07-09-03120*

Dear Mr. Cogley:

The Missouri Department of Social Services hereby responds to the draft report of the above-referenced audit dated August 19, 2009. The draft report asked that we present any comments and include a statement of concurrence or non-concurrence with each of the three recommendations.

The State agency contracted with the universities to provide long-term training programs for a fixed fee negotiated each fiscal year based on the departmental training needs. The annual contracts utilized a budget the universities would bill against in order to ensure the state agency was not reimbursing an excessive fee for the training programs. The state agency did not pass through Title IV-E grant funds for the universities to claim their actual costs against. To the extent the OIG audit disclosed billings to support the contract were undocumented, we concur with the findings.

The audit recommends the state agency reduce the federal reimbursement claimed for IV-E training by \$301,187. We disagree with the audit references that OMB circular A-21 which governs the university indirect cost rates and cost allocation apply to the state agency fixed fee contract.

The audit recommends the state agency work with ACF to resolve \$1,006,082 (federal share) of potentially unallowable costs claimed for long-term training. We disagree with the audit determination that the fixed fee contract for the agencies long-term training needs may need to be further allocated. We do not believe the audit appropriately evaluated the contracts in place and will work with ACF to resolve any concerns they have with the contracts and cost allocation plan

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Patrick Cogley
October 23, 2009
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We agree with the final audit finding that policies and procedures be strengthened to ensure contractual provisions are followed. We have revised university contracts for long-term training to more clearly define services paid and claimed to Title IV-E.

We look forward to working with your office to resolve the recommendations presented in the Final Report. Please do not hesitate to contact Jennifer Tidball at (573)751-7533 if you have any questions about the foregoing responses.

Sincerely,



Ronald J. Levy
Director

RJL:RB:bsb