

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**FUND BALANCES AND COLLECTIONS
REPORTED FOR THE TITLE IV-A
TEMPORARY ASSISTANCE FOR NEEDY
FAMILIES (TANF) PROGRAM
BY WYOMING DEPARTMENT OF
FAMILY SERVICES**



**JANET REHNQUIST
INSPECTOR GENERAL**

**FEBRUARY 2002
A-08-01-01047**



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

Region VII
601 East 12th Street
Room 284A
Kansas City, Missouri 64106

February 6, 2002
CIN: A-08-01-01047

Ms. Susan Lehman
Director
Wyoming Department of Family Services
Hathaway Building
2300 Capital Avenue
Cheyenne, WY 82002-0490

Dear Ms. Lehman:

This report provides you with the results of our audit entitled *Fund Balances and Collections Reported for the Title IV-A Temporary Assistance for Needy Families (TANF) program by the Wyoming Department of Family Services*; Cheyenne, Wyoming. The Department of Family Services was designated as the single State agency responsible for program administration (State agency). Our objective was to determine whether TANF grant awards of \$82,230,508 for the period January 1, 1997 through December 31, 2000, were expended or obligated in accordance with applicable laws and regulations.

We found that expenditures totaling \$72,130 did not meet rules applicable to use of reserve funds. We are recommending the State restore these funds to their TANF account. We also identified excessive drawdowns of Federal funds for which the State agency should pay the Payment Management System \$15,677 in interest. In their response, the State agency indicated they agreed with the interest owed and had returned \$62,033 for the questioned expenditures to prior year unobligated balances. It was their contention the remaining \$10,097 of the questioned expenditures was allowable because it was expended on development of the new computer system.

In the "Other Matters" section, we report two issues. First, the State agency obligated \$15.9 million of Federal fiscal year TANF grant funds by way of Memorandums of Understanding (MOUs). These MOUs did not meet the requirements for obligation of funds and the amount would normally be considered unobligated balances. However, the Secretary has ruled that the State agency made an inadvertent mistake due to a misunderstanding of the rules, and for fiscal year 2000, the MOU would constitute a valid obligation.

Secondly, the State agency proposed to use prior year TANF funds totaling \$29 million for development, operation and maintenance of a new computer system referred to as IRIS (Integrated Resources Information System). Prior year reserve funds may only be used for assistance or the related administrative costs of providing that assistance. The use of prior year TANF funds for the computer system is not allowable until the system is operational. However, ACF officials have ruled that the State agency may use reserve funds to the extent the new computer system's administrative costs relate to providing direct assistance and meets allocation guidelines of OMB Circular A-87.

INTRODUCTION

Background

The "Personal Responsibility and Work Opportunity Reconciliation Act of 1996" (Public Law 104-193) established the TANF program. The TANF program has given States new opportunities to develop and implement creative and innovative strategies and approaches to remove families from a cycle of dependency on public assistance and into work. At the Federal level, TANF is administered by the Administration for Children and Families (ACF). The ACF awards funds to States using the block grant funding mechanism.

Federal regulations for TANF are at 45 Code of Federal Regulations (CFR) parts 260-265. Other pertinent Federal requirements are listed at 45 CFR 92 and 31 CFR 205. In addition, ACF has issued various instructions to States to clarify TANF regulations.

The Wyoming TANF program became operational on January 1, 1997. In general, county offices were responsible for taking TANF applications, determining eligibility and authorizing TANF services. Results of the Wyoming TANF program for FFY 1997-2000 were reported as follows:

Total grant amounts awarded	\$82,230,508
Less: transfers to other programs	13,223,050
Grant funds available for TANF program	69,007,458
Less: total expenditures	<u>13,081,999</u>
Unliquidated obligations and unobligated balances	<u>\$55,925,459</u> ¹

¹ This amount includes MOUs which obligate \$15,890,562 of FY 2000 funds. These obligations are discussed in the Other Matters section of this report. It also includes the proposed expenditure of \$29 million of reserve TANF funds on the development and operation of the new computer system. These proposed expenditures are also discussed in the Other Matters section of this report

Scope of Audit

Our review was conducted in accordance with generally accepted government auditing standards. The objective of our review was to determine if TANF grant funds awarded to Wyoming for FYs 1997-2000 were obligated and expended in accordance with Federal regulations. Grant funds awarded to Wyoming during the audit period totaled \$82,230,508.

We evaluated claimed costs to determine whether they were (i) supported by the official accounting records and other reliable documentation and (ii) allocable and allowable in accordance with applicable regulations. Costs tested were those claimed on the most recent cumulative expenditure reports filed as of the start of our fieldwork. We determined whether any expenditures of reserve funds were made for items other than assistance and the related administrative costs, and were paid in accordance with the Final Rule pertaining to TANF reserve funds. Selected salary expenditures claimed were traced to supporting expenditure reports to determine whether the salary expenditures were paid in the same fiscal year. Administrative costs claimed for each fiscal year were tested to ensure they were within the allowable limit. We verified to supporting records that the State agency met the maintenance of effort requirement for each fiscal year.

We reviewed available correspondence between the State agency and ACF's headquarters and Denver regional offices regarding the use of MOUs to obligate funds and the use of reserve funds for purposes other than assistance and administrative costs. The ACF regional office provided us with correspondence pertinent to these issues after the close of the fieldwork.

We obtained copies of the MOUs and reviewed them to gain an understanding of the nature of the obligations and the services the other four departments would provide to the State agency.

As to development of the new computer system, we obtained and reviewed the implementation advanced planning document and the cost and technical versions of the request for proposal. Costs claimed were reconciled to supporting worksheets with selected individual costs being traced and verified with source documentation.

Transfers of TANF funds were tested to determine whether they were completed timely. The transfer dates were obtained from source documentation. We also verified that the amounts transferred were within allowable limits.

Grant fund drawdowns were reviewed to identify excessive drawdowns. Interest charges due the Federal government were computed by multiplying overdrawn amounts by an annualized rate equal to the average equivalent yields of 13-week U.S. Treasury Bills auctioned during a state's fiscal year.

Our fieldwork was conducted at the State agency offices in Cheyenne, Wyoming during the period March 6, 2001 through June 19, 2001.

FINDINGS IN DETAIL

Expenditures totaling \$72,130 did not meet rules applicable to use of reserve funds. We are recommending the State restore the amounts to their TANF accounts. In addition, we identified excessive drawdowns of Federal funds for which the State agency should pay the Payment Management System \$15,677 in interest.

Use of Prior Year TANF Grant Funds

The State agency could not provide us with supporting documentation to show that expenditures charged to FY 1997 reserve TANF funds were incurred for assistance. These expenditures, totaling \$72,130, were paid between July 1, 2000 and December 31, 2000. Included in those expenditures was \$10,097 for development of the new computer system.

According to an October 1, 1999 Final Rule, reserved funds may only be spent on assistance and associated administrative costs. This requirement is reiterated under the general instructions subheading of the Instruction for Completing Form ACF-196 (expenditure report). The instructions state: "The State must note that prior fiscal year unobligated balances may only be expended on assistance or on the related administrative costs of providing that assistance."

In the ACF booklet titled Helping Families Achieve Self-Sufficiency – A Guide on Funding Services for Children and Families through the TANF Program, assistance includes "... benefits directed at basic needs (e.g. food, clothing, shelter, utilities, household goods, personal care items, and general incidental expenses) even when conditioned on participation in a work experience or community service activity. It also includes child care, transportation, and supports for families that are not employed."

The reported expenditures are unallowable in the absence of documentation showing they were for assistance or supports for families that were not employed. The State agency believed they were in compliance with the Federal TANF regulations.

Recommendations

We recommend the State agency restore \$72,130 to their TANF account for prior year funds expended for non-assistance, and ensure future use of TANF reserve funds is for assistance or administrative costs of providing that assistance.

Auditee Response

The State agency agreed that expenditures totaling \$62,033 were not eligible TANF expenditures and stated they had returned the amount to prior year unobligated balances. They asserted that \$10,097 was eligible TANF expenditures because it was expended on development of the new computer system. The complete text of the State agency's comments is at the Appendix.

OIG Comments

The computer development expenditures are eligible only to the extent the State agency can show the expenditures were incurred for assistance. The State agency never provided information as to how the development expenditures of \$10,097 related to providing assistance.

Grant Fund Drawdowns

Our review disclosed that the State agency withdrew excessive funds from the Payment Management System. Combining the four grant years of our audit period, there were 747 days of excess drawdowns for the respective grant years. The excess daily drawdowns ranged from \$2,876 to \$390,440.

The regulations pertaining to the Cash Management Improvement Act are located at 31 CFR 205.12(a) and 205.13(d):

“A State will incur an interest liability to the Federal Government if Federal funds are in a State account prior to the day the State pays out funds for program purposes. A State interest liability will accrue from the day Federal funds are credited to a State account to the day the State pays out the Federal funds for program purposes.

...

The interest rate for all interest liabilities pursuant to this Subpart is the annualized rate equal to the average equivalent yields of 13-week Treasury Bills auctioned during a State's fiscal year...”

Excess drawdown days by grant year were 354 for FY 1997; 222 for FY 1998; 154 for FY 1999; and 17 for FY 2000. Using the average equivalent yields of 13-week Treasury Bills auctioned during a State's fiscal year, the computed interest was \$15,677.

Recommendations

We are recommending that the State agency pay the Payment Management System \$15,677 for interest due to excessive grant fund drawdowns, and take steps to preclude excessive drawdowns in future periods.

Auditee Response

The State agency agreed with our finding and indicated they would reimburse the Payment Management System \$15,677.

Other Auditee Comments

Our draft report included a finding regarding a \$200,000 transfer of funds and a recommendation that the amount be restored to the TANF account. The State agency indicated the amount had previously been restored, effective with the June 30, 2000 TANF report. We accept the State agency's response and the finding has been removed from this final report.

OTHER MATTERS

Memorandums of Understanding

The State agency entered into MOUs with four other state departments to obligate TANF grant funds near the end of FY 2000. These agreements were signed with the Departments of Corrections, Employment, Health, and Education. These departments did not let contracts for the required services with outside vendors until after the close of FY 2000. The initial amount of the four MOUs was not to exceed \$21,330,000, collectively. The amount was revised to \$15,890,562 on the December 31, 2000 expenditure report. In effect, the State agency contracted with itself and thereby the MOUs did not represent valid contracts to obligate TANF funds. In that regard, Federal regulations at 45 CFR 92.3 state:

“Grantee means the government to which a grant is awarded, and which is accountable for the use of the funds provided. The grantee is the entire legal entity even if only a particular component of the entity is designated in the grant award document.”

The State agency requested a determination from the Department of Health and Human Services Secretary's Office on the contractual validity of these MOUs. The State agency received a letter dated April 10, 2001 from ACF that stated that there was no obligation of the TANF grant funds by these MOUs. The ACF cited the above regulation as the basis for its determination. On April 30, 2001, the State agency sent a letter to ACF requesting a waiver to be allowed to use fiscal year 2000 TANF grant funds for these MOUs.

In July 2001, the Wyoming Governor received a letter from the Secretary stating that MOUs do not constitute an obligation of funds because the entire state entity is the grantee of funds. The letter goes on to state:

“However, we also did some research to see how well this policy is understood. We found that experienced state fiscal staff generally knew and understood the policy, but program staff were often unaware of it. Therefore, we will treat Wyoming’s violation of these requirements as an inadvertent mistake that occurred, in part, due to a misunderstanding of the meaning of the rules in the context and early implementation of the flexible TANF program.”

Use of Reserve Funds for Development of a New Computer System

The State agency has proposed to use \$29 million (or more) of TANF funds to finance approximately 80 percent of the development of a new computer system and the first ten years of its operation. Plans call for the TANF share to be financed by first exhausting the FY 1997 reserve funds and then doing the same for succeeding years. However, the TANF Final Rule precludes the use of reserved funds for purposes other than assistance and associated administrative costs.

The Acting Director of the ACF Office of Financial Services notified the State agency of this restriction as it applies to the new computer system on August 10, 2001. The State agency challenged the interpretation of the Final Rule in a letter dated September 5, 2001. On October 4, 2001, the Acting Director of the ACF Office of Financial Services and the Acting Director of the ACF Office of Family Assistance signed a letter to the State agency reaffirming the principles outlined in the Final Rule. Specifically, the letter states:

“Thus, Wyoming may use prior fiscal year TANF funds for the systems development costs related to providing ‘assistance’. But, only current-year TANF funds can be used for the systems development costs related to services and benefits...generally referred to as non-assistance. Until and unless ACF clarifies or provides guidance on how to allocate systems development costs between ‘assistance’ and ‘non-assistance’, the State may proceed with its systems development efforts based on a reasonable allocation methodology. Such a methodology must be consistent with the ‘assistance’ definition at 45 CFR 260.31 (and the preamble discussion at 64 FR 17808 through 17814) and be supported by a justification or rationale for the allocation.”

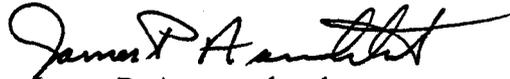
* * * * *

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 action official within to 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 are made available to the public to the extent information contained therein is not subject to exemptions in the Act. (See 45 CFR Part 5.) As such, within ten business days after the final report is issued, it will be posted on the world wide web at <http://www.hhs.gov/progorg/oig>.

To facilitate identification, please refer to the Common Identification Number A-07-01-01047 in all correspondence relating to this report.

Sincerely,



James P. Aasmundstad
Regional Inspector General
for Audit Services

Direct Reply to:

Beverly Turnbo
Regional Administrator
Administration for Children and Families
Federal Office Building
1961 Stout Street
Denver, Colorado 80294

STATE OF WYOMING
DEPARTMENT OF FAMILY SERVICES

Jim Geringer, Governor
Susan E. Lehman, Director



HATHAWAY BUILDING, 2300 CAPITOL AVENUE, CHEYENNE, WY 82002-0490 (307)777-7561
FAX (307)777-7747 INTERNET:TTASSE@MISSC.STATE.WY.US

January 23, 2002

James P. Aasmundstad
Regional Inspector General
For Audit Services
U. S. D. H. H. S.
Region VII
601 East 12th Street
Room 284 A
Kansas City, MO 64106

REF: SEL-02-029
RE: CIN A-08-01-0147

Dear Mr. Aasmundstad:

Thank you for the opportunity to provide input into your Draft Report, CIN A-08-01-01047. Our response is as follows:

1) **Grant Fund Transfer.** As stated to the auditor, our biennial budget is loaded into our State accounting system every even year by July 1. This transaction then obligates this Department, for the State and the Federal funds within our budget. So technically, the TANF funds are loaded into our budget and the transfer occurs as the grant funds are available. However, we did show evidence that funds were transferred by September 9, 1999.

The finding stipulates there may have been \$200,000 transferred to CCDF outside the documented transfers. We realized this and in the June 30, 2000 TANF report, we transferred \$200,000 back to TANF from CCDF. Why is this an audit finding when the agency corrected this almost a year before the audit?

2) **Use of Prior Year TANF Grant Funds:** Included in expenditures from unobligated 1997 TANF funds were \$10,097 for development of the new computer system. The audit provides a perception that this use of unobligated funds on system development conflicts with the TANF October 1, 1999 Final Rule.

Attached is a letter from USDHHS, ACF, October 4, 2001 stating unobligated funds can be used on system development for development costs for systems related to providing assistance.

We cannot refute the work related expenditure finding. The remaining \$62,033 has been returned to prior year unobligated balances.

3) **Grant Fund Drawdowns:** We cannot refute the drawdown finding. We will reimburse the Payment Management System \$15,677 when the final audit report is received.

Thank you for your assistance. We believe the audit was conducted in the most professional manner. Please do not hesitate to contact me should you have any additional questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'Susan E. Lehman', written over a horizontal line.

Susan E. Lehman
Director.

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Grant Fund Transfers

TANF transfers for CCDF:

		Revised Amt	Revised Amt	Revised Amt	Revised Amt
	9/30/99	6/30/00	9/30/00	6/30/01	9/30/01
FFY97	\$3,800,000	\$3,600,000	\$3,600,000	\$3,600,000	\$0
FFY98	\$4,300,000	\$4,300,000	\$4,300,000	\$1,400,000	\$0
FFY99	\$4,100,000	\$4,100,000	\$0		
Totals	\$12,200,000	\$12,000,000	\$7,900,000	\$5,000,000	\$0

All transfers referenced in the draft report dated 12/13/01 have been restored to the TANF grant as of the quarterly reports for the 9/30/01 quarter.

Use of Prior Year TANF Grant Funds

"...expenditures totaling \$72,130 were paid from 7-1-00 through 12-31-00 including \$10,097 for development of the new computer system..."

The FFY97 report claimed expenditures of \$10,097 for the Dec '00 quarter for line 6K Sytems on the ACF-196.

The remaining expenditures claimed as FFY97 as of 12/31/00 were "work" expendtitures that were reduced from the FFY97 report and claimed on the FFY98, 99, 00, or FFY01 reports as appropriate.

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Grant Fund Transfers

TANF transfers for CCDF:

	Revised Amt 9/30/99	Revised Amt 6/30/00	Revised Amt 9/30/00	Revised Amt 6/30/01	Revised Amt 9/30/01
FFY97	\$3,800,000	\$3,600,000	\$3,600,000	\$3,600,000	\$0
FFY98	\$4,300,000	\$4,300,000	\$4,300,000	\$1,400,000	\$0
FFY99	\$4,100,000	\$4,100,000	\$0		
Totals	\$12,200,000	\$12,000,000	\$7,900,000	\$5,000,000	\$0

All transfers referenced in the draft report dated 12/13/01 have been restored to the TANF grant as of the quarterly reports for the 9/30/01 quarter.

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OCT 4 2001

ADMINISTRATION FOR CHILDREN AND FAMILIES
370 L'Enfant Promenade, S.W.
Washington, D.C. 20447

Ms. Susan Lehman, Director
Wyoming Department of Family Services
Hathaway Building
2300 Capitol Avenue
Cheyenne, Wyoming 82002-0490

OCT 11 2001

Dear Ms. Lehman:

In response to your letter of September 5, 2001, we are modifying our August 10, 2001, letter to you and writing to confirm the discussions between your Deputy Director, Tony Lewis, other Wyoming officials and ACF staff. We have decided that one sentence in that letter is more restrictive than we intended. So we are rescinding the last sentence of the second paragraph which reads: "In short, the State may only use current year TANF funds to pay for systems costs related to systems development and construction."

Instead, we want to reaffirm the principles outlined in the final TANF rule. Prior fiscal year unobligated funds, or carry-over TANF funds, shall only be expended on "assistance" (as defined at 45 CFR 260.31) or the related administrative costs of providing "assistance." Information technology and systems development costs are administrative costs even though certain of those costs needed for TANF tracking or monitoring are excluded from the 15% administrative cost limitation. Thus, Wyoming may use prior fiscal year TANF funds for the systems development costs related to providing "assistance." But, only current-year TANF funds can be used for the systems development costs related to services and benefits excluded from the definition at 45 CFR 260.31(b) and generally referred to as non-assistance.

Until and unless ACF clarifies or provides guidance on how to allocate systems development costs between "assistance" and "non-assistance," the State may proceed with its systems development efforts based on a reasonable allocation methodology. Such a methodology must be consistent with the "assistance" definition at 45 CFR 260.31 (and the preamble discussion at 64 FR 17808 through 17814) and be supported by a justification or rationale for the allocation.

We also want to remind you of the requirements and cautions outlined in our letter of August 10, 2001. All systems development costs (as they relate to TANF and CCDF) must be allocated to benefiting programs in accordance with OMB Circular A-87 and related guidance. When you phase in the Food Stamp and Medicaid programs into your multi-program system in accordance with their respective prior approval requirements, those programs will be required to contribute their benefiting share of the systems costs, both those already incurred as well as the new and ongoing costs.

Page 2 – Ms. Susan Lehman

We hope this clarification in policy allows Wyoming to decide how to proceed with its systems development efforts. If we can be of further assistance, please do not hesitate to contact us.

Sincerely,


Nancy J. McGinness
Acting Director
Office of Financial Services


Ann Burek
Acting Director
Office of Family Assistance