

U.S. Department of Labor

Office of Inspector General
200 Constitution Avenue, N.W.
Room S5022 - Audit
Washington, D.C. 20210



September 24, 1999

MEMORANDUM FOR: RAYMOND BRAMUCCI
Assistant Secretary for
Employment and Training

FROM: JOHN J. GETEK
Assistant Inspector General
for Audit

SUBJECT: Consultation Report No. 20-99-006-03-390
Impact of Workforce Investment Act Administrative Cost Limitations on
JTPA Recipients

Pursuant to the Memorandum of Understanding (MOU) dated June 4, 1999, between ETA and OIG, the OIG engaged the CPA firm of Carmichael, Brasher, Tuvell and Savage to apply agreed-upon procedures in evaluating the potential impact of the Workforce Investment Act's (WIA's) administrative cost provisions on entities currently operating under the Job Training Partnership Act (JTPA). ETA selected 13 JTPA recipients, representing 10 service delivery areas and 3 Section 401 Native American grantees, from a pool of entities that volunteered for the survey. In accordance with the MOU, the OIG monitored the task order, performed quality control procedures and provided assistance as necessary to assure the quality of the work performed. Two copies, one bound and one unbound, of the independent accountants' report are attached.

Briefly, notwithstanding the unknown effect of WIA requirements (including designation of local areas, establishment of a one-stop delivery system and other provisions) on program operators' administrative costs, the survey found that:

1. Only two of the SDAs, as currently configured and operating under JTPA, would be in compliance with the WIA administrative cost limitation (10 percent of allocation), even after the cost classification requirements and definitions contained in the WIA interim final rule were applied.
2. Application of the WIA interim final rule cost classification requirements and definitions had a negligible effect on the classification of administrative versus program costs for the surveyed entities.

3. For the majority of the surveyed entities, program officials stated they intended to seek a waiver of the WIA statutory administrative cost limitation.
4. Similarly, a majority stated they intended to change their mode of operations in order to comply with the statutory cost limitation.

From the OIG's perspective, these final two points raise concerns about possible unintended consequences of the WIA administrative cost limitation. First, ETA may find itself inundated with requests from local areas for waivers of the statutory 10 percent limitation. Efforts to treat all such requests equitably could potentially result in a majority of local areas operating under waivers, in which case "the exception" (waivers) would effectively become more common than "the rule" (the 10 percent limit).

Second, while none of the program officials in the survey indicated they intended to change how they contract in order to comply with the administrative cost limitation, we believe there is a risk that the WIA administrative funding and definitions may affect how local areas deliver services. The dramatic shift in the early 1980s from cost reimbursement to fixed unit price, performance-based contracting comes to mind as an example of the system reacting to a reduction in administrative costs.

Specifically, the early years of JTPA saw a move to fixed unit price, performance-based contracting in response to: (1) the reduction in the administrative cost limit from 20 percent under the Comprehensive Employment and Training Act to 15 percent under the original 1982 JTPA statute, and (2) the rule, at 20 CFR 629.38(e)(2), that permitted certain fixed unit price contracts to be single unit charged entirely to training. Later, the 1992 JTPA Amendments raised the administrative cost limit to 20 percent and placed further restrictions on single unit charging of fixed unit price contracts.

To assist ETA in developing the final rule on administrative costs, the independent accountants' report details suggestions and comments made by grantee officials with respect to the WIA administrative cost limitations and definitions.

Please call me at 219-8404 if you have any questions or wish to arrange a briefing on the survey results.

Attachments

**INDEPENDENT ACCOUNTANTS' AGREED-UPON PROCEDURES
REPORT**

**IMPACT OF WORKFORCE INVESTMENT ACT
ADMINISTRATIVE COST LIMITATIONS
ON JTPA RECIPIENTS**

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ACRONYMS

ETA	Employment and Training Administration
JTPA	Job Training Partnership Act
HHS	Department of Health and Human Services
HUD	Department of Housing and Urban Development
INA	Indian and Native American
MIS	Management Information System
PIC	Private Industry Council
SDA	Service Delivery Area
USDOL	United States Department of Labor
WIA	Workforce Investment Act

INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED-UPON PROCEDURES

Employment and Training Administration
U.S. Department of Labor and
Other Specified User Agencies:

We have performed the procedures described in the Agreed-Upon Procedures and Results section of this report, which were agreed to by the Employment and Training Administration of the U.S. Department of Labor (USDOL) solely to assist in evaluating the potential impact of the Workforce Investment Act's administrative cost limitation on selected SDA and INA grantees (prepared in accordance with the criteria specified therein).

This engagement to apply agreed-upon procedures was performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller General of the United States.

The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representations regarding the sufficiency of the procedures described later in this report either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the potential impact of the Workforce Investment Act's administrative cost limitation on selected SDA and INA grantees. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purpose thereof. This report is intended solely for the information and use of the U.S. Department of Labor and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

CARMICHAEL, BRASHER, TUVELL & SAVAGE

Atlanta, Georgia
September 2, 1999

EXECUTIVE SUMMARY

The Workforce Investment Act (WIA) program will supersede the Job Training Partnership Act (JTPA) and become effective July 1, 2000. Several features of WIA, including establishment of one-stop centers, designation of local areas, and certain program requirements will have an unknown impact on the administrative cost experience of program operators.

The administrative cost limitation for local areas under WIA is 10 percent, which is a significant reduction from similar JTPA programs which were allowed to operate at 20 percent. The WIA administrative cost limitation for Indian and Native American (INA) grantees will be established by grant agreement. Under JTPA, INA grantees were limited to 20 percent.

Concerned about the Service Delivery Area (SDA) and INA grantees' future implementation and compliance with the WIA program, the Employment and Training Administration (ETA) asked for SDA volunteers to undergo a survey. The purpose of the survey was to determine what administrative costs would have been for a particular JTPA program, if the program were operated under the WIA regulations.

ETA selected program year 1997¹ for the survey and JTPA Title IIA, Adult Training, and Title IV-A, Section 401, Native American Programs, for the representative programs.

What We Did

We surveyed thirteen grantees (as listed in Appendix 1), representing ten SDAs and three INA grantees, to reclassify JTPA 1997 program year (July 1, 1997 - June 30, 1998) costs using the WIA administrative cost definition. This report will present the reclassified administrative costs in two ways: (1) as a percent of the grantees' allocation, since both JTPA and WIA express the administrative cost limitation in terms of the grantee's total allocation, and (2) as a percent of total expenditures, to provide ETA with information on the relationship of administrative costs to ongoing program operations.

Our procedures were performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller of the United States. In accordance with these standards, we rendered an independent accountants' report on applying the agreed-upon procedures.

Survey Results

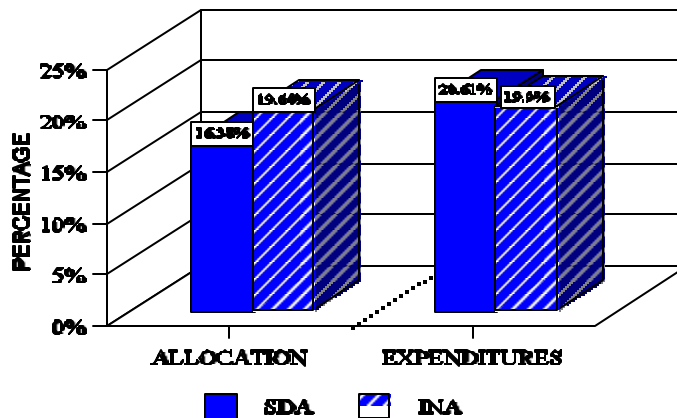
Applying the WIA definition of administration to JTPA costs had little effect on the percentage charged to administrative. As a percentage of total program allocation, only two of the SDA grantees and none of the INA grantees would have been in compliance

¹ Although JTPA funds may be spent during the program year of appropriation and the two succeeding years, we reviewed only PY97 funds spent during PY97 (July 1, 1997 through June 30, 1998).

EXECUTIVE SUMMARY

with the proposed administrative guidelines under WIA. As a percentage of total program expenditures, none of the grantees, SDA or INA, would have been in compliance.

The following chart summarizes our results. For the ten SDAs surveyed, the reclassified administrative costs averaged 16.38 percent of allocation and 20.61 percent of expenditures. For the INA grantees surveyed, the reclassified administrative costs averaged 19.64 percent of allocation and 19.90 percent of expenditures. See Appendix 2 for additional details.



All of the grantees believe that the 10 percent limitation is too prohibitive to operate the WIA program.

Eight of the thirteen grantees, representing 61.5 percent, intend to seek a waiver of the statutory administrative cost limitation imposed by WIA. Ten of the thirteen grantees, representing 76.9 percent, intend to change their mode of operations in order to comply with the WIA regulations.

Changes suggested and comments made by the grantees include:

- Six of the thirteen grantees surveyed recommended increasing the administrative cost limit. If this recommendation was applied and the limit was raised to at least 15 percent, six of the ten SDA grantees would be in compliance. In addition, during the course of our procedures, USDOL officials and INA grantees reached a compromise on the issue of administrative costs. USDOL agreed to raise the floor for negotiating allowable administrative costs from 10 to 15 percent. With this change, still only one of the three INA grantees surveyed would be in compliance.

EXECUTIVE SUMMARY

- Four of the thirteen grantees surveyed recommended that all subcontracted service costs, regardless of nature of contract, should be allowable program expenses. Applying this recommendation to the SDA grantees surveyed, the administrative costs would have been reduced in an approximate range of .10 percent to as much as 7.80 percent. Applying this recommendation to the INA grantees resulted in no changes to administrative costs.
- The majority of the grantees surveyed requested assistance implementing the WIA regulations in regards to the One-Stop concept and other general operating procedures. Further, five of the thirteen grantees surveyed responded that administrative cost limitations of other federal agencies were similar to those of WIA.

AGREED-UPON PROCEDURES AND RESULTS

Objective, Background and Scope

Objective

The project objective was to assist ETA in determining if the definition of administration developed for the WIA regulations will enable most local programs to comply with the ten percent statutory limitation on administrative costs.

The Employment and Training Administration (ETA) asked for SDA and INA grantee volunteers to undergo a survey. The purpose of the survey was to determine what administrative costs would have been for a particular JTPA program, if the program were operated under the WIA regulations.

Background

The Workforce Investment Act (WIA) program will supersede the Job Training Partnership Act (JTPA) and become effective July 1, 2000. Several features of WIA, including establishment of one-stop centers, designation of local areas, and certain program requirements will have an unknown impact on the administrative cost experience of program operators.

The administrative cost limitation for local areas under WIA is 10 percent, which is a significant reduction from similar JTPA programs which were allowed to operate at 20 percent. The WIA administrative cost limitation for Indian and Native Americans (INA) grantees will be established by grant agreement. Under JTPA, INA grantees were limited to 20 percent. Although WIA administrative cost limitations for INA grantees will be established by grant agreement, these entities will follow the same definition of administrative cost applicable to the local areas.

ETA's interim final rule at 20 CFR Part 652 established cost classification requirements that differ in many respects from the definition applicable to JTPA programs. These major changes reclassifying administrative costs to program costs are noted below:

- Cost of first line supervisor/team leaders of staff that provide services directly to participants.
- Costs of the individuals involved in the tracking and monitoring of WIA program, participant, or performance requirements; or for collecting, storing and disseminating information under the core services provisions.
- Costs of public relations directly related to requesting services for/providing services to/for participants.

AGREED-UPON PROCEDURES AND RESULTS

- Costs of tracking and monitoring of WIA program, participant, or performance requirements; and collecting, storing and disseminating information under the core services provisions
- Cost of continuous improvement efforts that are program related.
- Administrative costs associated with fixed price and cost reimbursement contracts for “specific goods and services.”

Scope

We surveyed thirteen grantees, representing ten SDAs and three INA grantees, to reclassify JTPA PY 1997 (July 1, 1997 - June 30, 1998) costs using the WIA administrative cost definition. This report will present the reclassified administrative costs in two ways: (1) as a percent of the grantees’ allocation, since both JTPA and WIA express the administrative cost limitation in terms of the grantee’s total allocation, and (2) as a percent of total expenditures, to provide ETA with information on the relationship of administrative costs to ongoing program operations.

ETA selected program year 1997 for the survey and JTPA Title IIA, Adult Training, and Title IV-A, Section 401, Native American Programs, for the representative programs.

Our procedures were performed in accordance with standards established by the American Institute of Certified Public Accountants and *Government Auditing Standards*, issued by the Comptroller of the United States. In accordance with these standards, we rendered an independent accountants’ report on applying the agreed-upon procedures.

AGREED-UPON PROCEDURES AND RESULTS

Survey Results

Applying the WIA definition of administration to JTPA costs had little effect on the percentage charged to administrative. As a percentage of total program allocation, only two of the SDA grantees and none of the INA grantees would have been in compliance with the proposed administrative guidelines under WIA.

- As a percentage of total program expenditures, none of the grantees, SDA or INA, would have been in compliance.
- All of the grantees believe that the 10 percent limitation is too prohibitive to operate the WIA program.
- Eight of the thirteen grantees, representing 61.5 percent, intend to seek a waiver of the statutory administrative cost limitation imposed by WIA.
- Ten of the thirteen grantees, representing 76.9 percent, intend to change their mode of operations in order to comply with the WIA regulations.
- Changes suggested and comments made by the grantees (See Appendix 3 for details) include:

Six of the thirteen grantees surveyed recommended increasing the administrative cost limit.

If this recommendation was applied and the limit was raised to at least 15 percent, six of the ten SDA grantees would be in compliance.

During the course of our procedures, USDOL officials and INA grantees reached a compromise on the issue of administrative costs. USDOL agreed to raise the floor for negotiating allowable administrative costs from 10 to 15 percent. With this change, still only one of the three INA grantees surveyed would be in compliance.

Four of the thirteen grantees surveyed recommended that all subcontracted service costs, regardless of the nature of the contract, should be allowable program expenses.

Applying this recommendation to the SDA grantees surveyed, the administrative costs would have been reduced in an approximate range of .10 percent to as much as 7.80 percent. Applying this recommendation to the INA grantees resulted in no changes to administrative costs.

AGREED-UPON PROCEDURES AND RESULTS

The majority of the grantees surveyed requested assistance implementing the WIA regulations in regards to the One-Stop concept and other general operating procedures.

Five of the thirteen grantees surveyed responded that administrative cost limitations of other federal agencies were similar to those of WIA.

As noted above, the effects of the regulatory changes were inconsequential. We noted that depending on the internal operating structure of the survey participant, the regulatory changes could potentially have even less of an impact. For example, if a recipient did not use subcontractors, one of the major reclassifications did not come into play. Alternatively, if a recipient utilized subcontractors to operate all of their programs, the reclassification of the cost of the first-line supervisors was of no consequence.

For each of the grantees selected for the engagement, certain agreed-upon procedures were performed with the following results:

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Preliminary Work</p> <ol style="list-style-type: none"> 1. Review regulations 2. Obtain and review Job Training Plan 3. Arrange and conduct entrance conference with SDA official to review engagement objectives 	<p>From our review of the regulations, differences were noted in the classification of some costs as program under WIA and administrative under JTPA. These differences were isolated and utilized in the reclassification of costs procedure explained later. During the entrance conference, all of the SDAs and INA grantees were very concerned about the proposed administrative cost limitations under the WIA program.</p>
<p>Reclassification of Costs</p> <ol style="list-style-type: none"> 1. Interview SDA and INA officials obtaining organizational and financial information regarding the JTPA Title IIA and Title IVA, Section 401, respectively, for the 1997 program year (July 1, 1997 through June 30, 1998) 2. Applying WIA criteria, information obtained from interview process, and financial information, recalculate the historical administrative costs as if the program had been operated as a WIA program 	<p>With the differences noted between program and administrative costs as noted in the preliminary work, we went about the task of reclassifying the original administrative costs to what the administrative costs would have been under WIA. The areas that brought about the largest amount of reclassification from administration to program costs were as follows:</p> <ul style="list-style-type: none"> # Salaries and related fringe benefits of the first line supervisors and/or team leaders responsible for those staff who provide program services. # Salaries and fringe benefits regarding information systems and data entry costs for: <ol style="list-style-type: none"> i. Tracking or monitoring of participant and performance information; ii. Employment statistics information, including job listing information, job skills information, and demand occupation information; iii. Performance and program cost information on eligible providers of training services, youth activities, and appropriate education activities # The costs of contracts, whether fixed price or cost reimbursement, awarded for the purpose of obtaining specific goods or services. <p>Although substantive changes were made in the regulations for WIA, the quantitative effect of these changes were negligible. Depending upon the internal operating structure of the survey participant, the regulatory changes could potentially have even less of an impact. For example, if a recipient did not use subcontractors, one of the major reclassifications did not come into play. Alternatively, if a recipient utilized subcontractors to operate all of their programs, the reclassification of the first line supervisors was of no consequence.</p>

<i>Agreed-Upon Procedures Performed</i>	<i>Results of Procedures</i>
<p>Views of SDA Officials</p> <p>Interview grantee officials regarding implementation and administration limitations imposed under the WIA program.</p>	<p>We surveyed the grantees for their recommendations on matters regarding statutory and/or regulatory language of the WIA regulations; the treatment of administrative costs under WIA in comparison to other federal agencies operated by the grantee and overall recommendations in regard to WIA.</p> <p>A summary of those responses follow:</p> <ul style="list-style-type: none"> • Six of the thirteen grantees surveyed recommended increasing the administrative cost limit. • Four of the thirteen grantees surveyed recommended that all subcontracted service costs, regardless of nature of contract, should be allowable program expenses. • Majority of the grantees surveyed requested assistance implementing the WIA regulations in regards to the One-Stop concept and other general operating procedures. • Five of the thirteen grantees surveyed responded that administrative cost limitations of other federal agencies were similar to those of WIA. <p>At appendix 1 are the questions posed to grantees and their responses.</p>
<p>Statement of Facts</p> <p>Prepare statement of facts for grantee official to be provided at exit conference.</p>	<p>The statements of facts were provided to grantees at the exit conference and also provided to ETA. A summary of these results are noted at Appendix 1.</p>

APPENDIX 1

Sites visited:

3 INA Grantees:

Colorado River Indian Tribes, Parker, Arizona

Michigan Indian Employment and Training Service, Inc., East Lansing, Michigan

American Indian Community House, Inc., New York, New York

10 SDA Grantees:

PIC Of San Francisco, Inc., San Francisco, California

Arapahoe/Douglas Works, Aurora, Colorado

The Workplace, Inc., Bridgeport, Connecticut

Northeast Georgia Regional Development Center, Athens, Georgia

Mayors Office of Employment and Training, Chicago, Illinois

Job Works, Fort Wayne, Indiana

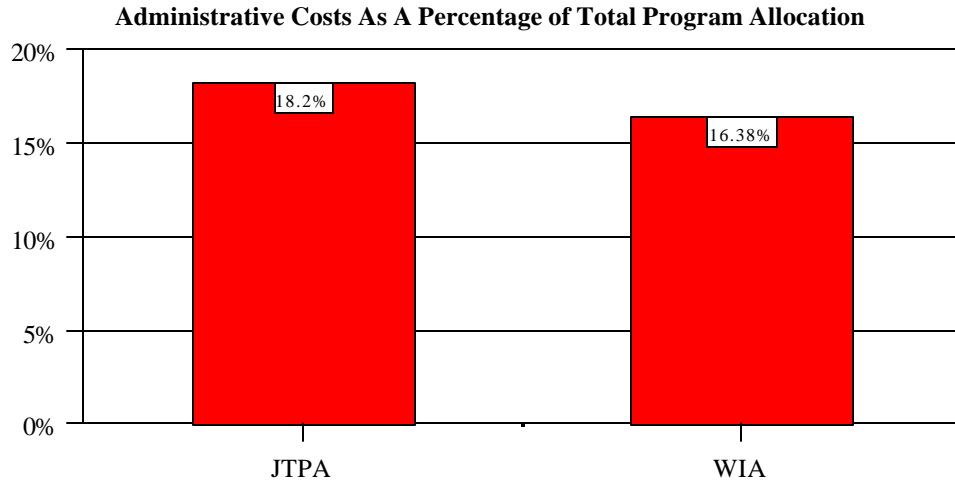
Lowell Office of Employment and Training, Lowell, Massachuset

Montana Job Training Partnership, Inc., Helena, Montana

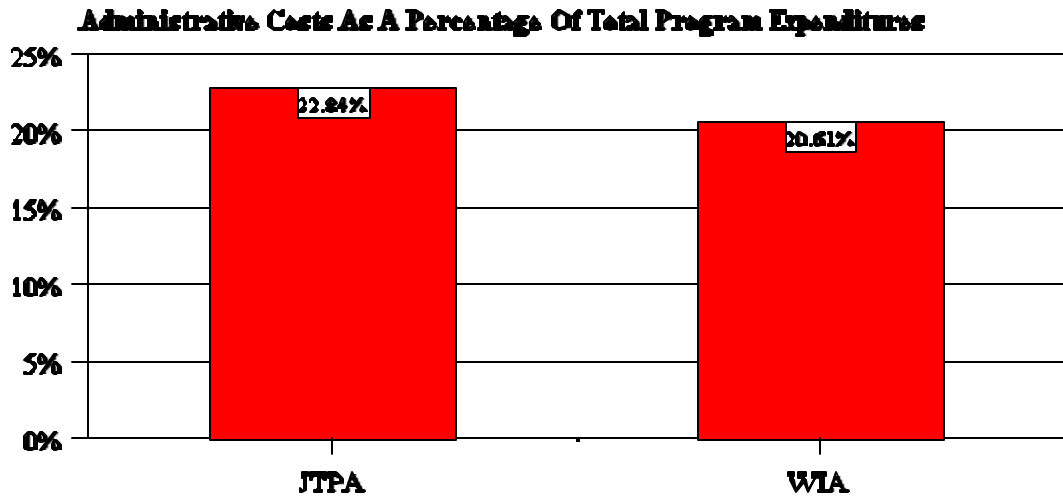
City Of Charlotte Employment and Training Department, Charlotte, North Carolina

Northumberland Montour Training Services, Bellefonte, Pennsylvania

SDA GRANTEES



SDA GRANTEES



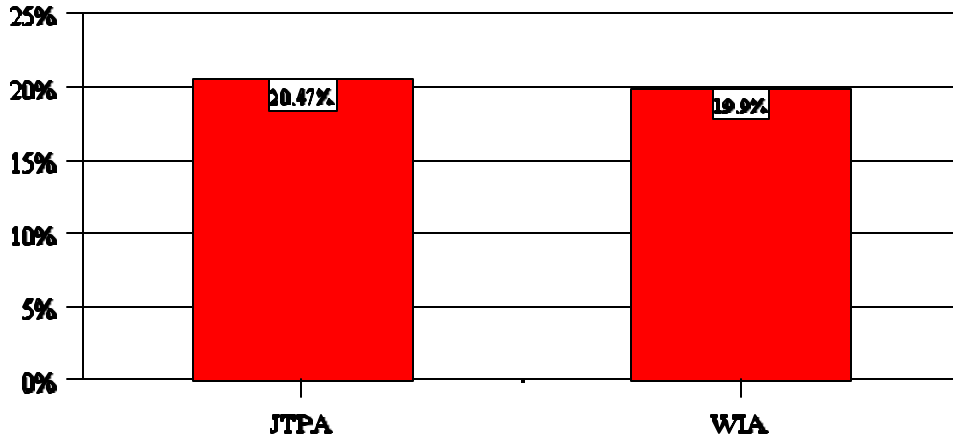
INA GRANTEES

Administrative Costs As A Percentage Of Total Program Allocation



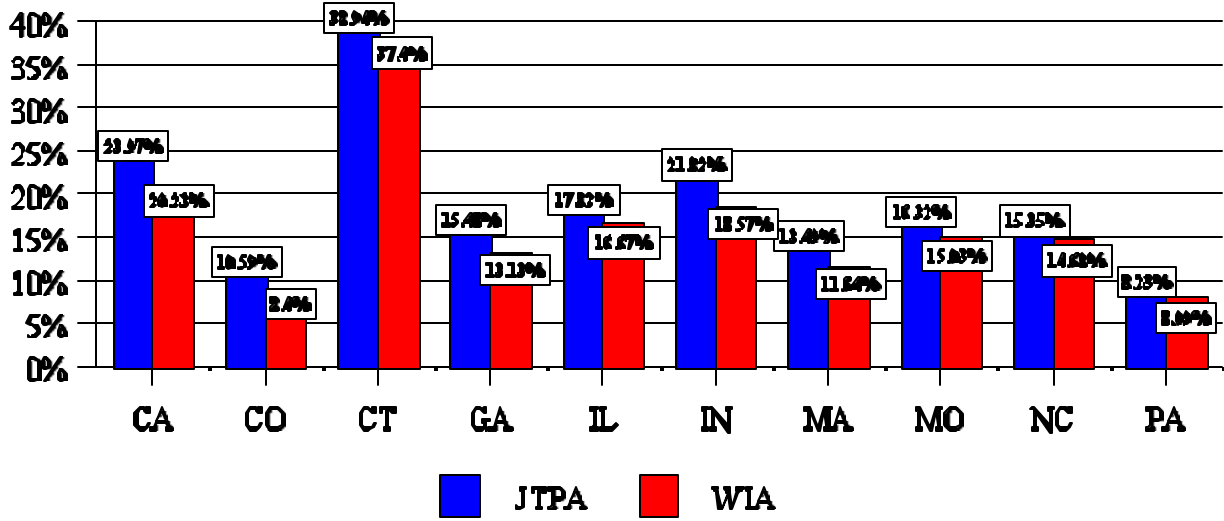
INA GRANTEES

Administrative Costs As A Percentage Of Total Program Expenditures



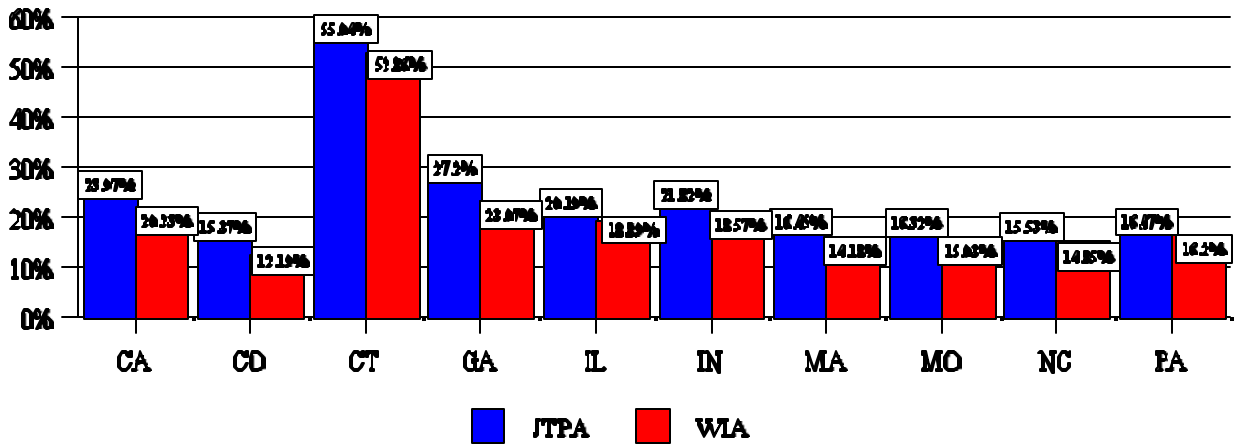
SDA GRANTEES

Administrative Costs As A Percentage Of Total Program Allocation



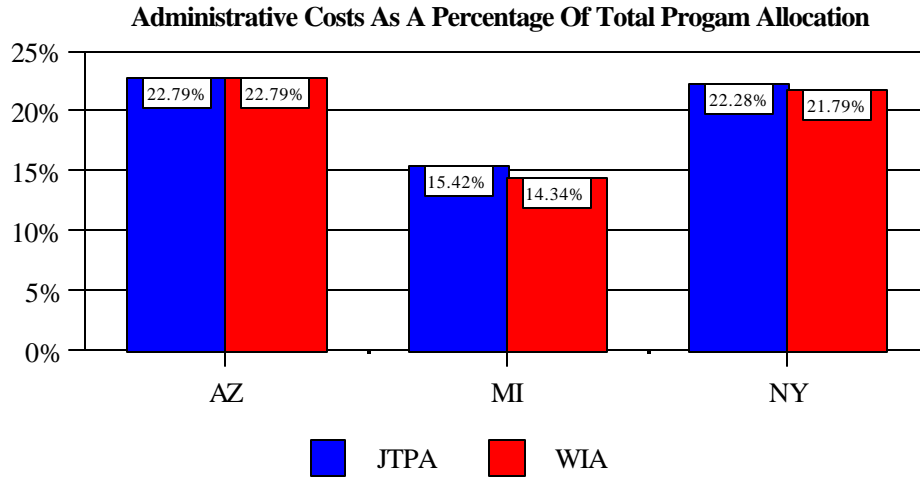
SDA GRANTEES

Administrative Costs As A Percentage Of Total Program Expenditures

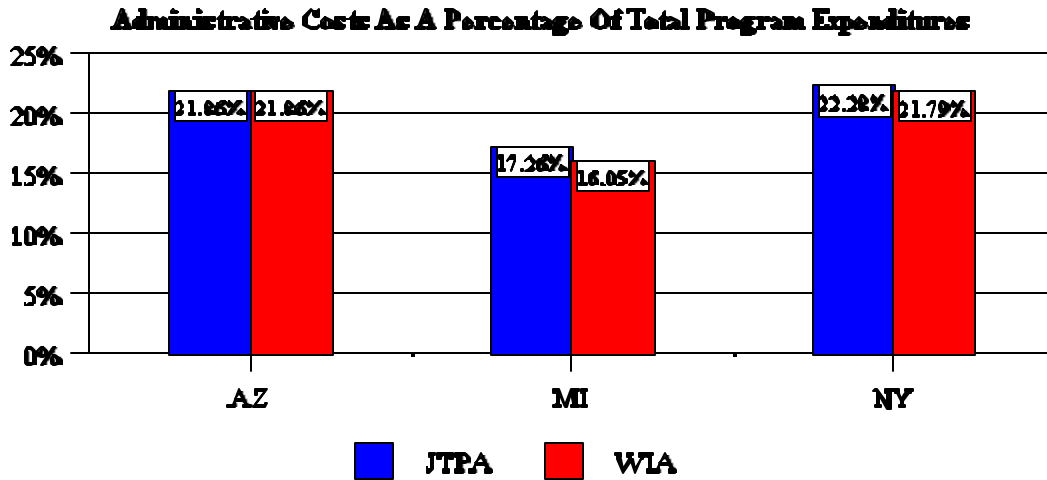


NOTE: Administrative costs presented are actual expenditures of the program including JTPA expenditures in excess of JTPA administrative funding limitation.

INA GRANTEES



INA GRANTEES



NOTE: Administrative costs presented are actual expenditures of the program including JTPA expenditures in excess of JTPA administrative funding limitation.

APPENDIX 3

Responses by Survey Participants to Selected Questions

Question: Do you/your organization have any recommendations in regard to WIA? (i.e.)

- Increase the administrative cost?
- Revise other regulations?
- Other

Response: Keep the administrative costs limit at 20% and request from SDAs a 'real' needs budget for administration cost and plan around that amount.

Adopt the cost classification rules of other federal agencies and departments and eliminate the proposed requirement to continue classifying and reporting administrative costs that are incurred at each tier below the principal subgrantee for each Local Workforce Investment Area.

Help with understanding the value associated with the separation of the Workforce Investment Board and its functions from the actual delivery of services. Provide funds necessary to set up these separate administrative and operational systems.

Require that the State be totally responsible for establishing a list of approved training vendors as opposed to local boards being responsible.

Perform a review of costs that are borderline administrative and program in nature, i.e. contractual and monitoring costs.

Allow an allowance for fees for service revenue.

Allow Regional Workforce Board's to provide core and intensive services considering that they are operating as a One Stop.

Provide financial incentives to all required partners of the One Stop.

Increase the rate to 15%.

APPENDIX 3

Any items directly related to participant support including processing and responding to inquiries on travel, attendance and childcare payments should be program expenses and not administrative.

Only the costs of PIC should be considered administrative.

All contracts specifically for participant assistance or training should be allowable program expenses.

Provide for standard cost classification rules for all SDAs that are to be a part of the One-Stop System.

USDOL should not have more limiting cost classifications than HHS, HUD, and Wagner-Peyser.

Provide assistance to Indian and Native American programs with negotiating with the State and/or it's Workforce Investment Boards.

Provide clarification of sanctions for not creating working relationships with the state, i.e. who will be sanctioned - State or Native programs, what parameters and guidelines for the sanctions, will there be an appeal process.

Discuss in greater details statutory waivers.

Provide concise definitions of administrative costs, including for audit purposes.

Provide training on new definitions and/or policies for SDAs as well as for states.

Revise regulations concerning Voc-Rehab, Welfare to Work, Wagner-Peyser, Carl Perkins, etc.

Provide implementation funds and more time to implement.

Revise the cost allocation formula to reflect extenuating circumstances, such as high cost of living and transient regions.

The regulations of other federal workforce development programs should provide for administrative support of the local governance structure.

APPENDIX 3

All costs at the service provider level should be considered program costs.

The word 'subgrantee' should be removed from the administrative definition.

Question: How do other Federal programs (HUD, HHS, etc) treat administrative costs within your organization?

Response: Headstart program administrative limit is 15% of a \$1 million budget.

No other funding sources require administrative costs to be classified separately nor be subject to a maximum cost rate limit.

One Federal agency defines 15% as administrative cost limitation after excluding participant tracking and record-keeping costs.

Wagner-Peyser - no administrative cost limitation.

Administrative cost pool plan assigns percentages to various programs proportionately based on cost burden of each program.

Other federal funding streams follow similar patterns in classification.

Other funding sources have allowable administrative percentages from 6% to 20% to 100% of funds.

There should be more consistency among the federal agencies on what is defined as an administrative cost.

Other federally funded programs do not make an administrative cost distinction.

There is a 27% indirect cost rate with HHS. In addition, several administrative costs are direct line items in the budgets.

Single Point of Contact funds contracted to subgrantees are considered program costs.

Welfare to Work uses the same definition as JTPA/WIA.

APPENDIX 3

Request: Please state any specific recommendations with suggestions for revising statutory or regulatory language regarding cost limitations or clarification of costs.

Response: Consider each individual grantee's needs; and consider the barriers of reservation programs in regard to the lack of local training facilities.

Raise the percentage limitation in law and regulations.

Develop common definitions of costs among the various employment and training activities, as well as a common set of expectations in regards to the level of administration necessary to meet responsibilities.

The costs of certain functions might be better classified as program vs. administrative, i.e. contract development, vendor review & monitoring, financial costs related to participant services.

There should be some incentive funds built in for good performance.

Costs should not be prorated - if a staff person performs any program services, all of the work performed should be charged to program costs.

All costs associated with the operation of a One-Stop Center should be classified as program costs.

Provide clear and concise definitions of administrative and program costs.

Limit the definition of administrative dollars to administrative work within the administrative entity.

Local program operators' funds should be program dollars.

Make technical assistance funds available.

All indirect costs which are defined as administrative costs and identified in a federally approved indirect cost plan should be allowed.

APPENDIX 3

All expenses necessary to cover staff time, travel, and related expenses required to properly oversee USDOL grant funds are allowable and should be classified as either 'direct program', 'direct administrative', or 'central administrative' costs.

Section 667.210 (administrative cost limits) are somewhat ambiguous in defining administrative and program costs.

Provide more examples of what is charged to administrative and program costs concerning program monitoring, MIS, and continuous improvement.

Revise regulations to have only one category of costs.